★ TECHNICAL RALLY — HOW FAR WILL IT GO? ★

The MAGAZINE of WALL STREET
and BUSINESS ANALYST

RUARY 27, 1960 — 85 CENTS

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By ROBERT B. SHAW

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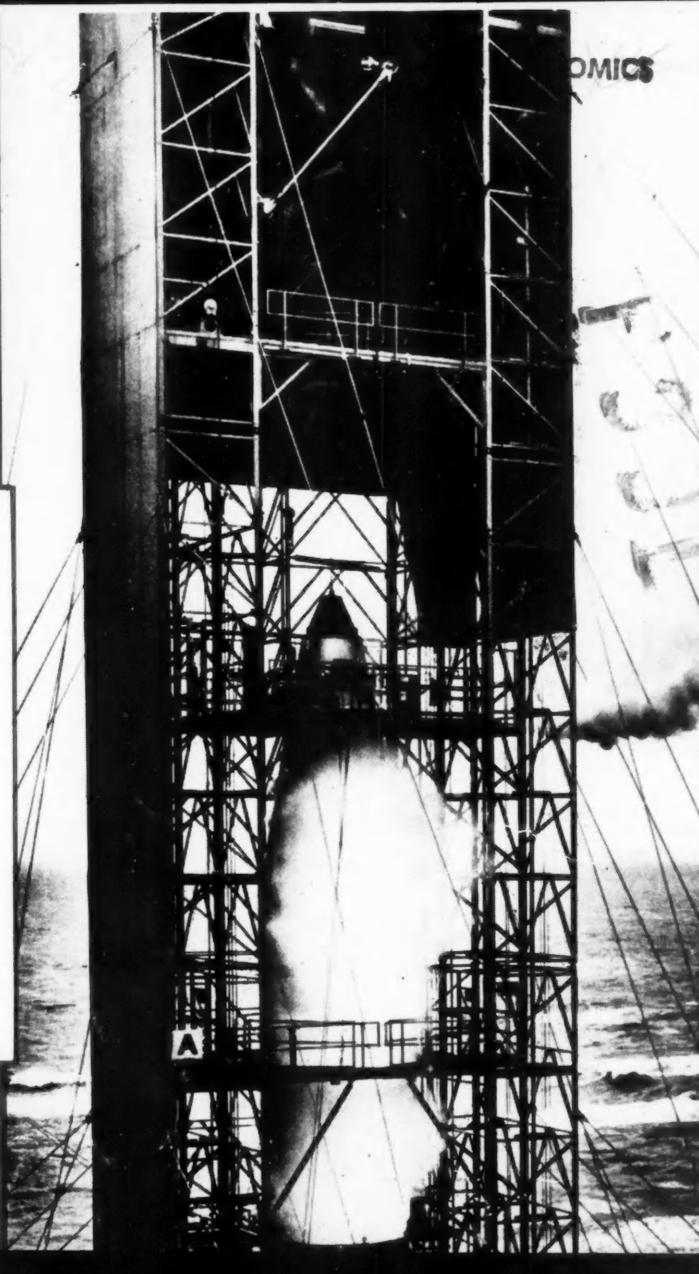


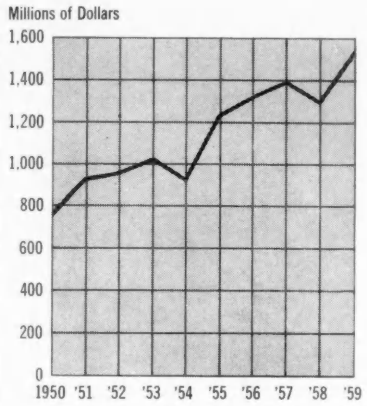
UNION CARBIDE

UNION CARBIDE CORPORATION

1959 Annual Report Summary

	1959	1958
Sales	$1,531,343,824	$1,296,532,373
Net Income	171,637,065	124,936,845
Per Share	5.70	4.15
Dividends Paid	108,344,828	108,265,402
Per Share	3.60	3.60
Earned Surplus	685,493,989	622,201,752
Current Assets	$ 714,667,441	$ 664,097,034
Current Liabilities	257,204,296	213,802,203
Total Assets	1,632,250,370	1,530,476,376
Shares Outstanding	30,097,943	30,093,183
Number of Stockholders	126,927	126,739
Number of Employees	74,000	71,500

Copies of the complete 1959 Annual Report of Union Carbide Corporation will be furnished on request. An illustrated booklet describing the products and processes of Union Carbide also is available. If you wish copies of these booklets, please write to the Secretary, Union Carbide Corporation, 30 East 42nd Street, New York 17, N. Y.



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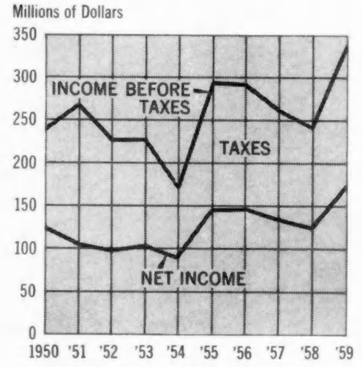

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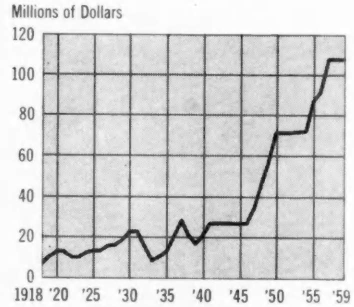
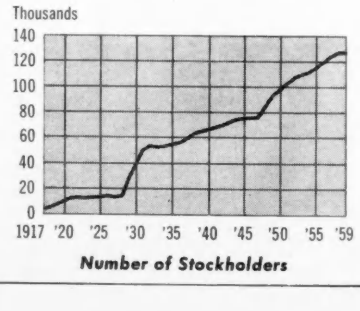


Dividends Paid



Number of Stockholders

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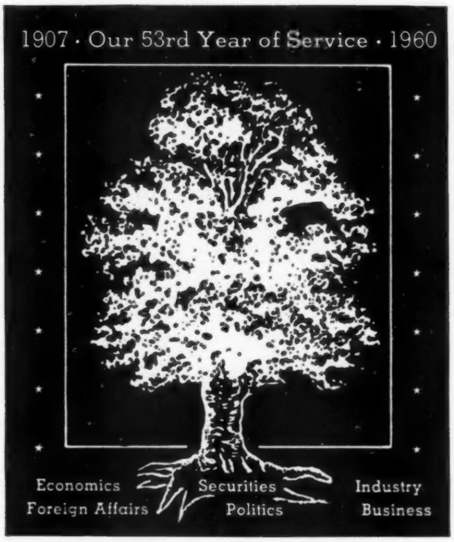
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

WHEN THE TRUTH CATCHES UP . . . For the past 40 years the Soviet Union, through skillful and cunning propaganda, has built the vision of a beneficent Communism—which, in one fell swoop—in the space of a single year—was destroyed by Red Chinese aggression in Asia. And the disillusionment was so great that it is bound to grow and grow as it spreads from one country to another.

Such is the formidable obstacle that Nikita Khrushchev will have to hurdle if he is to counteract the realization that Communism is a conspiracy to brutally subjugate the people of the world. That he did not succeed in dispelling the deep mistrust produced was clearly shown by the lack of enthusiasm in the reception accorded him by the people of India.

In fact, the communique issued on his departure clearly shows that the results of the visit were purely negative. And his willingness to share the credit with President Eisenhower for seeking a peaceful solution of world problems, speaks volumes for the set-back to his cause, and the desire to ingratiate himself with Prime Minister Nehru, whose change of heart regarding the United States was clearly evident, as the excerpt from the communique shows:

"The two Prime Ministers noted with much satisfaction recent favorable trends in world affairs leading to marked lessening of international tensions. This improvement is due in no small measure to the personal initiative and coordinated effort of leaders of the great powers, notably, Mr. Khrushchev, Chairman of the Council of Ministers of the U.S.S.R., and Mr. Eisenhower, President of the United States."

This was very revealing, coming as it did, following upon the numerous attacks Mr. Khrushchev made on our capitalistic system — and his accusations of ulterior and selfish motives behind the foreign loans of the United States.

All his boasts of "catching up" and "outstripping" our country on the economic

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

front were thereafter listened to with tongue-in-cheek. Able men are well aware of the difference between Russia's military-orientated economy, which leaves little production for consumer goods—and that of the United States, which concentrates on consumer goods for the well being of its people, while our defense production is maintained only to meet the Russian challenge of world conquest.

It is clear even to the unthinking that the United States, as the richest country in the world, has long operated at the highest economic level, which combines both necessities and luxuries. Thus, the percentage of growth each year cannot be great and must depend (1) on an increase in the "units of buying power" in our population—(2) on broad export trade—and (3) on the capital goods needed for the rehabilitation and development of the vast areas in our country that have not yet been exploited.

Contrariwise, the Russian consumer goods economy starts from a very low level, so that any increase in production appears large percentage-wise, even if it only represents a small fraction of the volume of goods that the U. S. A. produces for the people of this country every year.

Unfortunately, however, the truth is obscured by the reports in our press regarding comments made by legislators and politicians to the effect that the Soviet Union is catching up with us and will shortly be ahead of us. This is an absurdity!

In fact, we could stand a little deflation in this country and still be way ahead of Russia. An orderly retreat would enable us to correct the maladjustments arising from the attempt to put to work the excess productive capacity left from World War II, when we supplied the whole world with arms.

It is recognition of these facts and understanding of our true position by the solid statesmen of the world, that has enabled us to maintain our position as the leader of the Western coalition. If it had been otherwise, we can be sure that neither Britain — West Germany — Japan — France — or any other of our allies — would have continued to acknowledge our power.

During this period, motivated by malice and hate, Russian propaganda became the nagging gadfly that stung us out of our complacency —, but led us by the nose through the missile and space rocket labyrinth. We yet do not know to what extent these adventures into space may imbalance the forces of nature that control the earth. It has already caused all sorts of unaccountable climatic disturbances, which only this month had people in Florida wearing overcoats while New York was sweltering under 63 degrees, with storms, earthquakes and typhoons destroying various areas in our country as well as abroad.

The time has come to call a halt to the nonsense emanating from recognized and pseudo-scientists, and get down to earch to solve our more immediate problems, which are many — lead the rest of the world in a common sense direction, and make a mockery of Nikita's claim that Russia is great because she shot a rocket to the moon, which, by the way, has really never been verified.

We have the opportunity now in the set-back that Khrushchev is experiencing on his trip, for his reception in Burma was more suited to the temperature in the Arctic than in tropical Rangoon, and the applause form the large pro-communist faction in Indonesia has much less significance than it would have had before Red China started her campaign of brutal aggression.

The ill-will that the Russians bear us, and their destructive intensions, have been made clearly evident by recent events, the latest being First Deputy Premier Anastas Kikoyan's attempt to make Cuba a satellite communist state, and to use Castro as a tool for organizing hostile demonstrations along the route of President Eisenhower's South America trip.

These are already being recognized for what they are — and now, as the President starts out on his visit of goodwill, we have every opportunity to present the strength for our case to willing ears in the South American capitals.

MAKING IT TOUGH FOR DE GAULLE . . . Maybe there is some justification for de Gaulle's distrust of friend and foe alike — when you see how he is being attacked on all sides.

He barely had made headway in Algeria when Ghana, formerly a British Colony, froze French funds in a protest against the French atomic bomb explosion in the Sahara, and Morocco and Tunis not only expressed their displeasure, but threatened retaliation.

De Gaulle undoubtedly considered it a humiliation that he should be "called on the carpet", so to speak, by the African states, when no one took action against Russia when she calmly announced the intention of making rocket tests in the center of the Pacific and warned all shipping and aircraft to avoid the area, ignoring the protests by Japan and others, and the matter ended there.

And now, whether out of pure bitterness or because his suspicions were aroused, he has refused to allow the "Outer-7" to establish its permanent secretariat in Paris, an action that was interpreted as a political rebuff aimed mainly at Britain.

Actually it does seem a little far-fetched that the European Free Trade Association should want to establish its headquarters in Paris, outside of the territory of its members, and you cannot blame de Gaulle for his suspicion. The French see this request as a step toward the eventual establishment of the sought-for link between the "Outer-7" and the Common Market. That is London's objective.

De Gaulle knows well that Britain never gives up. And his fear that London might seek to retard or frustrate the economic and political development of the Common Market as conceived, is understandable. Also, that Britain, unable to attack directly, is trying to do so by back-door methods.

The rift between the two trading groups has been widening for some time past, and since de Gaulle has come to leadership Britain fears that she might be isolated from the continent both politically and trade-wise.

The alarm over the widening gulf between Britain, West Germany and France brought Douglas Dillon, Under Secretary of State for Economic Affairs, to France, in an attempt to avert a crisis, and by pledging the United States to closer trade ties with Europe a semblance of harmony was produced and a plan was set up to work out ways and means that would benefit both groups.

As I See It!

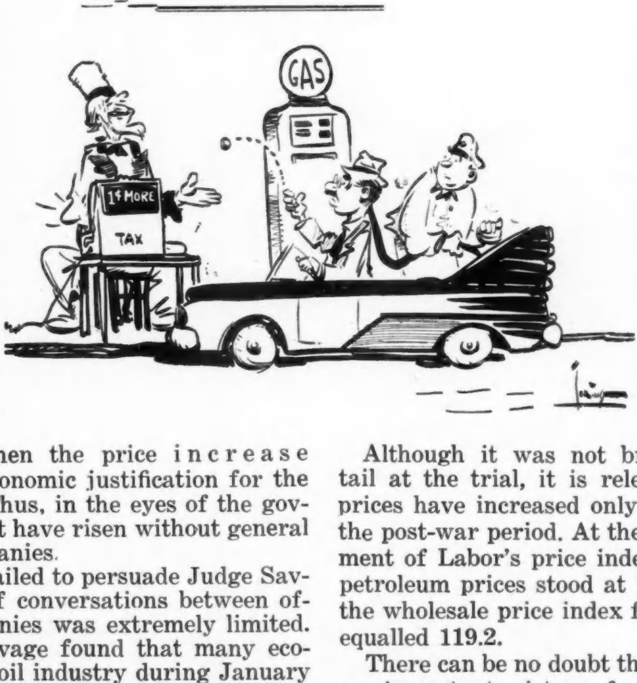
By Dillard Spriggs

OIL TRIAL AT TULSA — FREE ENTERPRISE UPHELD

THE ways of justice and the law are often complex and difficult to understand. But last week's decision in the oil pricing case in which 29 major oil companies were alleged to have conspired to raise oil prices during the Suez Crises was unmistakably clear: complete acquittal! Federal District Judge Royce H. Savage, sitting in Tulsa, reached his decision soon after Government prosecutors completed their presentation and a trial which many had thought would last for months was ended in less than two weeks.

During pre-trial work, Justice Department lawyers issued subpoenas for as many as 100,000 documents from individual companies. Once in the court room, they tried to press home two major points: 1) it was alleged that company officials had ample and frequent opportunities to conspire to increase prices by means of inter-company telephone and personal conversations; 2) government prosecutors contended that oil inventories were at high levels when the price increase occurred and that no economic justification for the price advance existed. Thus, in the eyes of the government, prices could not have risen without general agreement among companies.

Today's the day



Both charges clearly failed to persuade Judge Savage. Factual evidence of conversations between officials of various companies was extremely limited. Furthermore, Judge Savage found that many economic conditions in the oil industry during January 1957 justified an advance in oil prices at that time. The jurist pointed to the fact that Humble Oil and Refining Co., which initiated the price increase was short of inventories.

He also placed emphasis on the steady rise in the oil industry's costs, particularly for finding and developing new oil reserves. Here, he based his findings on an interesting document covering oil costs which was written by John McLean, former professor of Business Administration at Harvard University and now vice president of Continental Oil. Finally, the judge indicated, unashamedly and forcefully, that the mere fact of a price increase should hardly be considered evidence of wrong doing sufficient to invite public suspicion. He noted, "they were interested in increased profits—I don't know of any business corporations that are not — and understandably so." This statement. indicating a strong belief in a free enterprise economy, will encourage those, both in the oil industry as well as in other segments of the U.S. economy, who have long feared that our anti-trust laws were being enforced too rigidly.

Although it was not brought out in great detail at the trial, it is relevant to observe that oil prices have increased only relatively slowly during the post-war period. At the end of 1959, the Department of Labor's price index (1947-1949 = 100) of petroleum prices stood at 114.5. This was less than the wholesale price index for all commodities which equalled 119.2.

There can be no doubt the decision at Tulsa marks an important victory for the oil industry. Long the object of criticism for its pricing practice, it can now feel completely vindicated.

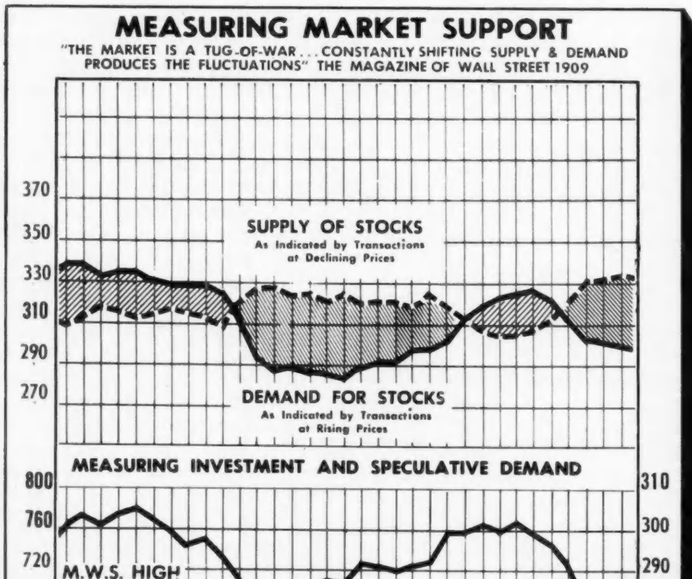
Technical Rally – How Far Will It Go?

Rise in industrial output to new high and moderate easing in money rates contribute to betterment in sentiment for time being, but fail to change more important fundamentals. Any significant decline in interest charges seems impractical so long as foreign credits remain substantial, since flight of European capital abroad would imperil our gold reserves and readily might undermine domestic financial markets. Meantime, more realistic appraisal of corporate earnings is likely to resume after a temporary rebound from an oversold position.

By A. T. MILLER

Unless one is determined to close his eyes to disturbing political and economic forces having long range significance, it would seem unwise to regard the sharp rebound in stock prices this week as anything more than a technical correction. After six weeks of concentrated liquidation in which numerous seasoned equities had declined from 25 to 40 per cent of their record highs of the lest year or two, it was not surprising that a temporarily oversold condition should develop. When traders sought to take advantage of the situation in Wednesday's noonday selling wave, offerings suddenly disappeared and prices strengthened to complete a typical "selling climax."

This eagerly awaited development sparked a rush of buying orders Thursday that practically wiped out losses incurred early in the week and left the Industrial Average at today's opening virtually at last Friday's close. The sudden turnabout thus set the stage for a technical rally, a maneuver that tends to encourage new demand for stocks and enlarges "buying orders under the market" sufficiently to permit resumption of selling on the part of experienced investors and traders who feel that so-called "growth" industrials and other equities still are overvalued in relation to realistic appraisals of prospective corporate earning power.



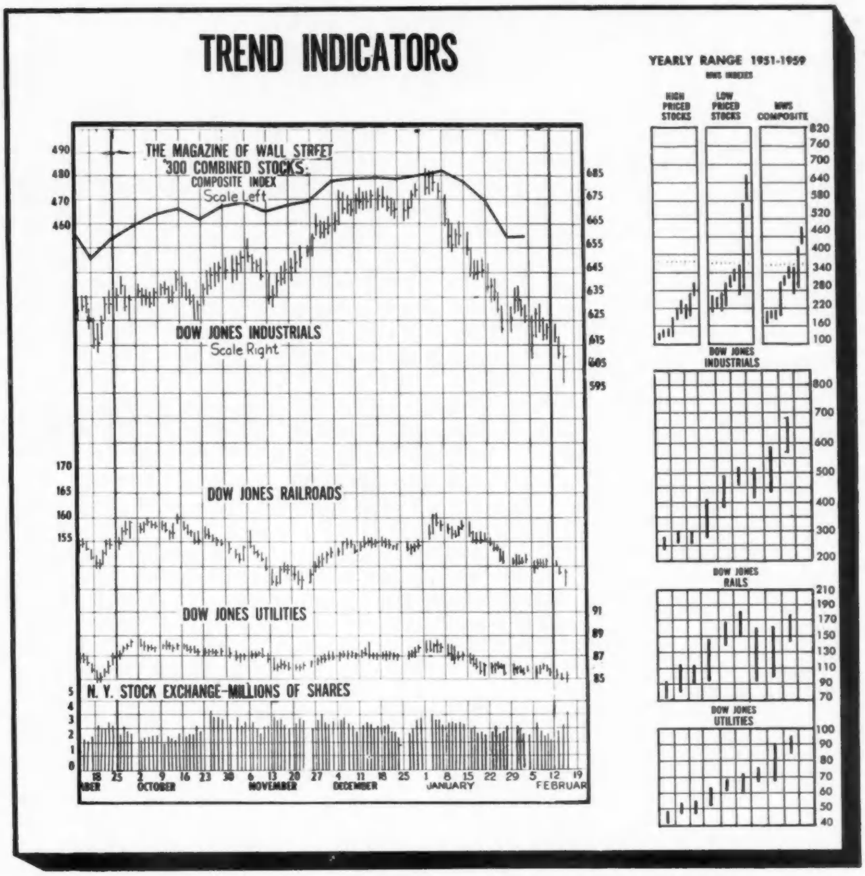
After a sharp break and recoil such as experienced this week, chartists endeavor to reappraise the outlook to estimate the extent of a potential contratrend movement. It seems appropriate then to consider how far the automatic snapback may carry. Before examining developments which seem to have bolstered sentiment in the last few days, it would be well to maintain a sophisticated objective by reviewing political and economic fundamentals which have exerted a depressing influence on stocks for more than six months (aside from the rather abnormal stimulating effect of the resumption of steel production). Foremost among factors that have disturbed major institutional investors, include the ever present threat of withdrawal of extensive foreign central bank credits in this country, which might revive a drain on gold reserves here, and the seemingly impending squeeze on corporate profit margins under the existing surplus of goods caused by rising wages and consumer resistance to price increases. Obviously nothing has happened in the last several days to alter the outlook.

Labor and Profits

Washington has heard unofficial intimations of a possible moderate rise in the nation's money supply which has remained restricted for more than half a year. Optimists have seized upon this hint as a possible sign of relaxation in tight money, and a spur to the infla-

tionary atmosphere. Yet, any informed student of financial affairs must realize, however, that Washington authorities scarcely would dare to attempt relaxation in money rates, while interest charges are rising in other world centers to which international credits invested in Treasury bills might take flight. Foreign funds would tend to shift to London or to Geneva or to other European centers if more attractive yields appeared there. And sizeable withdrawals would bring about resumption of a heavy flow of gold abroad.

As for *industrial profit margins,* business leaders are hardly optimistic. Certainly nothing has happened in recent days to improve the outlook even though the serious labor troubles of 1959 are not expected to be repeated this year. Wage rates have been steadily mounting and are destined to continue to higher levels as escalator provisions of current contracts take effect in coming months. Automation has helped to improve worker efficiency, but greater individual productivity has proved inadequate to compensate for rising unit costs with the result that, except in areas in which price advances can be effected, margins have suffered.



Where Individual Companies will be Affected by Higher Interest Rates

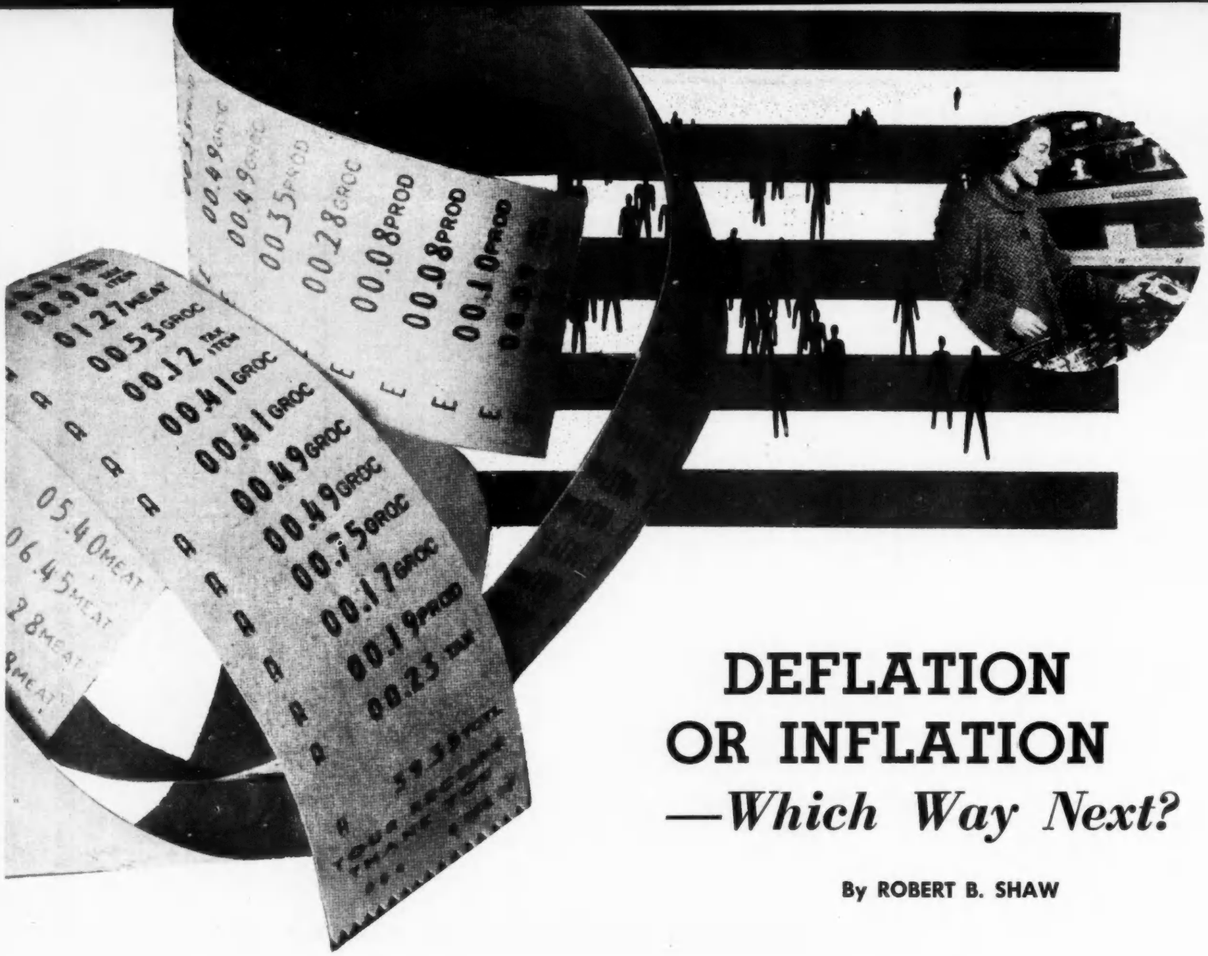
Since it seems that *tight money must continue to prevail*—even though the appearance of relaxation has been encouraged by repayment of seasonal retail borrowings, and by a substantial reduction in commercial loans in member banks — investment portfolio managers are certain to view with skepticism, groups and individual companies likely to be handicapped by high interest rates. Moreover, the specter of narrowing margins in basic industries cannot be ignored, especially as competition intensifies when inventory pipelines are replenished. *A casual survey of industries likely to be affected by these factors discloses that the principal groups that may be vulnerable are automobile manufacturers, steel producers and suppliers of building materials—vital segments of the American economy.*

Profit Margins For Autos & Steels

Suppose we look briefly at present conditions in autos, steels and building materials. Consumer demand for *1960 motor cars* has converged on so-called compact models. The "big three" cannot produce enough of the "low-priced" cars and, are cutting back output of medium and high priced units. One does not need to be an economist to realize that margins on the new compacts are narrower than on the older or regular models, such as Chevrolet, Ford, Plymouth, Buick, Dodge, etc. Hence, even though the motor car industry should be able to produce and sell between 6 and 6½ million cars this year, can principal manufacturers count on "normal" margins from such a volume? Probably not.

What about *steel?* Granted that wage costs have failed to rise as rapidly as had been feared at time of the wage contract settlement, productive capacity has expanded to such an extent, that costs of new facilities have mounted and other operating expenses have moved steadily higher with the result that estimates of earnings for the March quarter and for the first half year are being lowered. It is evident that consumers of steel, copper and other critical materials are planning to let inventories remain relatively low. Since strike threats have been removed, there is no incentive to build up stocks of supplies to be held for use later in the year. Accordingly, the forecast of record output in steel this year of 125 million ingot tons may prove ratehr optimistic. Talk of record earnings and stock splits for major steel producers has subsided.

A brighter outlook for mortgage funds has awakened interest in stocks of building suppliers, but few bankers or building and loan officials feel that money costs are likely to be approciably lower than current quotations. De- *(Please turn to page 644)*



DEFLATION OR INFLATION —*Which Way Next?*

By ROBERT B. SHAW

UNTIL very recently, while the great majority of economists and businessmen were predicting that the outlook for 1960 was "in the bag", scant attention was being paid to the possibility of inflation. Only an occasional "out-of-step" observer voiced the suspicion that the long period of price inflation might be nearing its end. And few took this view seriously. It was extremely difficult for many businessmen and investors to readjust their sights and contemplate the possibility of deflation replacing inflation as a major factor in our economy.

But the 70-point tumble in the stock market has taken considerable steam out of the former exuberance, causing the business and financial community to reappraise assumptions previously held and to examine more closely some of the inflationary influences already beginning to be felt in our economy.

A Look Backwards

For more than a quarter of a century the trend of prices has been sharply and almost steadily upward. Children have been born, matured, married and begun to raise their own families, all in an era of ever rising costs. A majority of the people now living in the United States probably cannot remember a time when the price trend was other than definitely upward.

During this era we have become thoroughly "conditioned", as the psychologists would term it, to the expectation that inflation will continue forever. The possibility of deflation, which once regularly alternated with inflation, has been dismissed from consideration. Many of us have had a vested interest in continuing inflation; those who have been victimized by it have simply resigned to it as inevitable.

Our government. while always against inflation in theory, in practice has almost uniformly supported measures that have contributed to it.

In the light of this background, can it reasonably be suggested that the long inflationary trend is likely to reverse itself?

Some Definitions

Before answering this question a pause for the definition of terms is desirable. While plenty of disagreement as to the cause and meansing of inflation exists, two major types may be distinguished. The first, **monetary inflation,** results from the deliberate devaluation of the dollar. This expedient may be adopted for various purposes. Our present era of inflation stems principally from Roosevelt's 40% cut in the gold content of the dollar back in 1934. But even this drastic step had little immediate effect in raising prices, its desired objective. The depth of the general business stagnation at that time proved a more powerful influence than any formal change in the relationship between dollars and gold supply.

alone new and modern mechanization, these products can be offered in the countries of origin, and elsewhere at lower prices — and even increasingly right here in the United States, at prices our domestic industry cannot meet. It is true that foreign countries have also experienced inflation and that current wages in Japan, for example, do represent a very substantial advance over the mere pittance that was paid before the war. The more significant fact is that a wide and almost constant differential has been maintained between U. S. and foreign wage levels. Improved transportation has also assisted the foreign invasion of our markets. By canalizing the St. Lawrence River and opening the Great Lakes to the seaborne commerce of the world we made it easy for foreign manufacturers to deliver motor cars in the very environs of Detroit—or agricultural implements in Milwaukee.

Most business transactions are now carried out on credit, and **credit inflation,** the uncontrolled expansion of bank deposits and short-term claims, is thus much more dangerous today than the old type of devaluation. To be sure, various sources, principally gold miners in certain foreign countries, are constantly pushing for a new devaluation. Some domestic politicians would also find in this procedure an immediate solution for the problem of the huge federal debt. More responsible leaders realize, however, that such a step would be disastrous, and it is highly unlikely.

Wage-price inflation is not really a separate category but merely a description of a familiar process when credit is plentiful. Labor's wage demands are added to the cost of goods, thus boosting the cost of living and justifying a new round of demands—another version of the familiar vicious circle.

Foreign Competition

Now, the factors promoting inflation, among which the constant pressure by organized labor for ever higher wages is probably the strongest, have by no means evaporated from our economy. But certain counter-forces have only recently gathered strength. Most of these have been discussed fully in previous issues of this magazine, but deserve renewed attention.

Most important is **foreign competition.** This, of course, is nothing new in the year 1960, and yet it has recently taken an altered and more virulent form. Other countries have long been able to outcompete us in raw materials and simple manufactures, such as clothes pins, cheap toys and the like, requiring only unskilled and inexpensive labor. Our response was occasionally to protect the domestic producers by tariffs or quotes, but more typically to abandon such markets to European or Asiatic wares. This policy hurt isolated American industries, but had little effect upon our overall economy.

Today the picture is entirely different. Germany, Japan and other countries are making, not cheap imitations, but intricate and finished products that compare favorably in quality with the automobiles, sewing machines, electrical apparatus and typewriters of domestic manufacture. And owing to considerably lower wage rates prevailing abroad, let

"Joining Them"

Individual American companies will, of course, seek protection against this intensified foreign competition in various ways. The best way undoubtedly is to keep ahead of the competition by constantly designing new and improved products or reducing costs. The tendency of labor to demand the full benefits of any efficiencies of this character reduces the opportunities of such progress. Another method is to seek artificial protection in tariffs and quotas. But American manufacturers are increasingly "joining" their competition, i.e., establishing subsidiaries or licensing affiliates abroad. This is practicable because capital is readily mobile. The advantages to the American companies and their foreign hosts are mutual, and this course may solve the problem for such organizations as Colgate-Palmolive, Joy Manufacturing, Dresser Industries and numerous others.

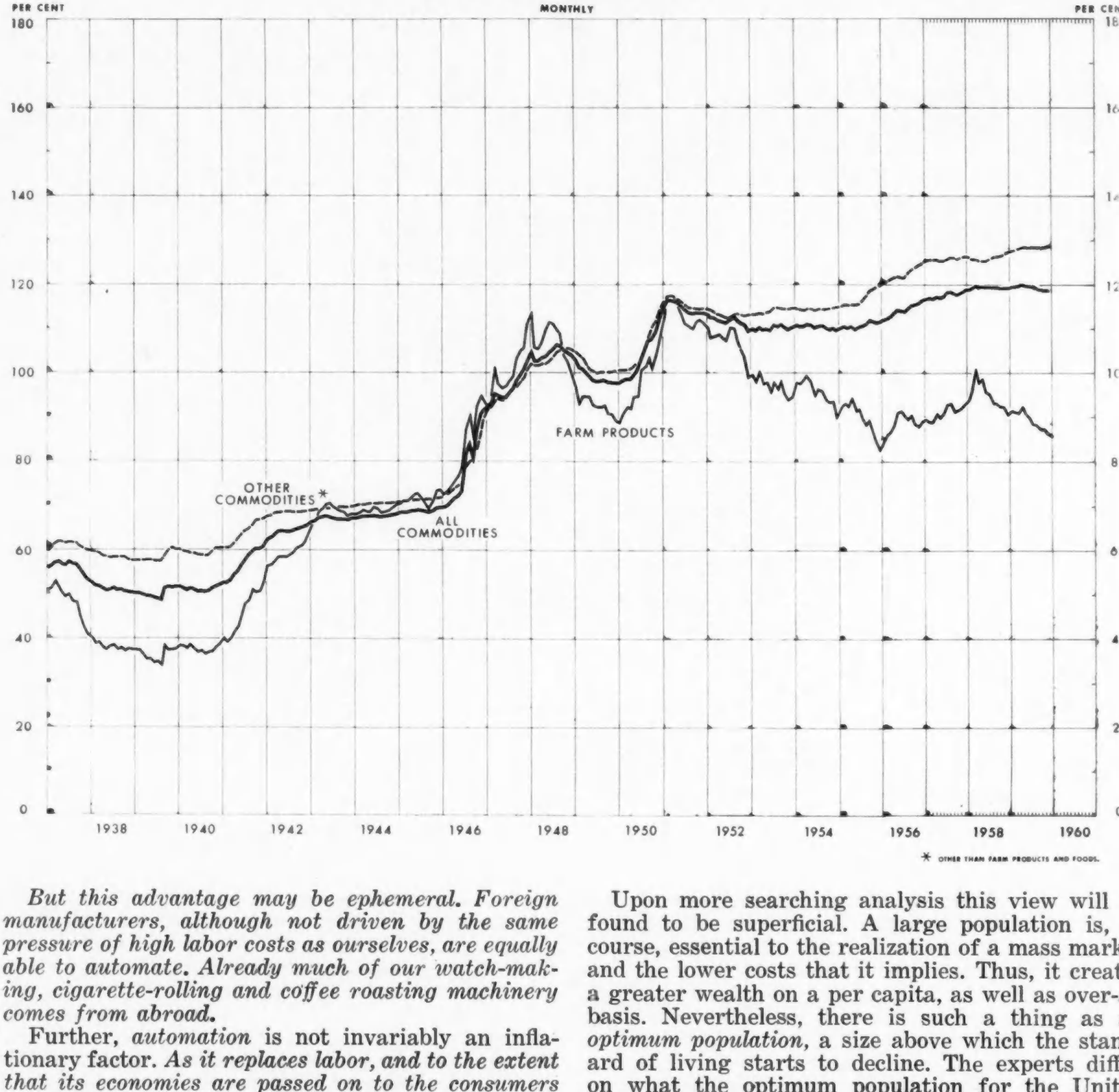
But people are not so mobile, and this process of the transfer of capital is no solution for us in a national sense. In the absence of some other solution—and none is in sight—something will have to yield. In the first instance this is likely to be profits, and after that wages. Costs will have to be reduced generally if we are merely to hold our own against efficient foreign production.

Can Automation Save Us?

The stock answer for higher labor costs is, of course, automation, a new name for an old process. This has already contributed enormously to our high standard of living and has held costs low enough so that we have long enjoyed a mass market in products still regarded as luxuries in foreign countries. In the economic realm it is impossible to speak in absolutes, but it is probable that automatic processes will help in a substantial way to maintain some advantage over foreign producers.

WHOLESALE PRICES

BUREAU OF LABOR STATISTICS INDEXES, 1947-49=100



* OTHER THAN FARM PRODUCTS AND FOODS.

But this advantage may be ephemeral. Foreign manufacturers, although not driven by the same pressure of high labor costs as ourselves, are equally able to automate. Already much of our watch-making, cigarette-rolling and coffee roasting machinery comes from abroad.

Further, *automation* is not invariably an inflationary factor. *As it replaces labor, and to the extent that its economies are passed on to the consumers rather than merely diverted to profits, it has deflationary effects.*

To a large extent, of course, labor has managed, by various featherbedding tactics, to appropriate to itself most of the benefits of automation, sometimes entirely cancelling out any rewards for the introduction of such new equipment. As automation becomes more widespread it will be increasingly difficult for labor to block it or to grasp all of its benefits.

What of Population Growth?

The rapid increase in our population, beginning with the unexpected reversal during World War II of the previous downward trend, is frequently cited as an absolute guaranty of permanent prosperity, including constantly rising wages, prices and profits.

Upon more searching analysis this view will be found to be superficial. A large population is, of course, essential to the realization of a mass market and the lower costs that it implies. Thus, it creates a greater wealth on a per capita, as well as over-all basis. Nevertheless, there is such a thing as an *optimum population,* a size above which the standard of living starts to decline. The experts differ on what the optimum population for the United States is, and the figure is naturally somewhat flexible. *Nevertheless, according to several authorities, the population of this country is already considerably in excess of its optimum level.*

Economic Advantages and Disadvantages in the Birth Rate

What is more significant in the immediate future is the indicated variation among different age groups. At present, the country is still experiencing the tail-end of the baby drought which occurred in the depression years of the 30's, when the birth rate was severely reduced. This means that in the decade 1951-60, the population in the 20-24 year-old age group decreased by 4%, and in the 25-29 year-old group by no less than 12%, vs. an increase in the overall population of 16%.

This "hollow generation" has created an artificial

shortage of labor in the important young adult category, and by the same token has increased its bargaining power.

Beginning within a year or two, however, the forerunners of the war-time and post-war baby boom will start entering adulthood — and the labor force. Their numbers can be estimated rather precisely. In 1960 the population of 15-19 year-olds—our present "upper teen-agers" — had increased 26% in a decade, and their younger brothers and sisters, the 10-14 year-olds, by an enormous 54%. By the inexorable operation of time, these youths will become the young adults of tomorrow. And for a period of many years the labor market is likely to be swamped.

Over a still longer period, to be sure, this tendency will apparently reverse itself. Elderly people are living longer and if the birth rate continues high we will have, after the arrival at family status of the present teen-agers, a new baby boom. This suggests that the dependent population of infants and of aged will be relatively larger while the working population will again shrink. This prospect is still too remote to be reckoned as a practicable factor in the current outlook. In passing, *however, it may be noted that there is usually a tendency to look only at the favorable aspects of population growth and to disregard its burdens.*

For example, the specialized markets created by teen-agers and the elderly are already being acclaimed as great opportunities. Obviously the working population must, through some method or another, support most of the dependent children and old folk, and the markets these groups create subtract from the purchasing power of the working adults. *Every father knows this, even though many economists seems to have forgotten it!*

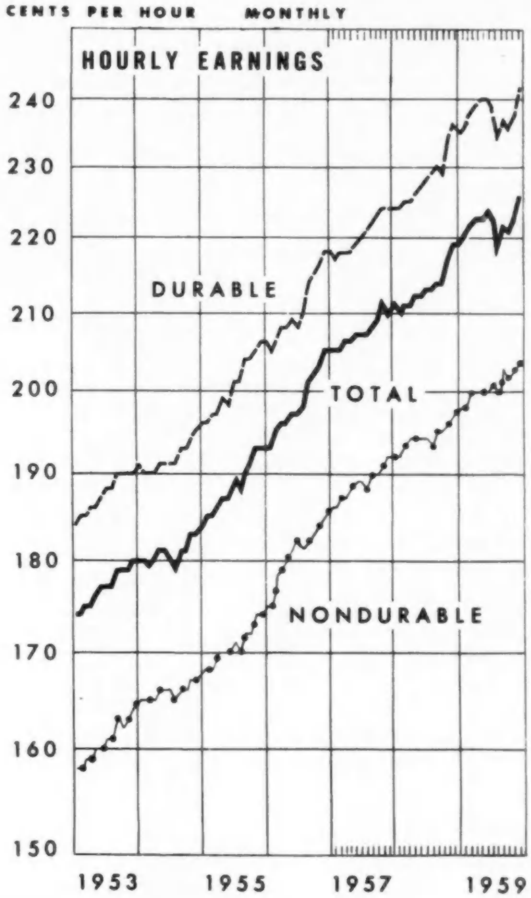
More Careful Buying

Up to 1952, or thereabouts, our economy was largely engaged in making up war-time shortages. Since then it has created an abundance of new goods, and it is doubtful whether there is a family, even including those on relief, which does not enjoy a materially higher standard of living than in 1940. Many of the new products and services offered the public have been wholesome and satisfying. But many of them, it can not be denied, have been cheap and flashy. On the whole, our standards of taste have not been highly elevated. Actually they have declined.

There are some signs now that the American public is looking for sounder values. Greater emphasis is being placed upon basic quality rather than gadgetry. Increasing objections to the wasteful practice of planned obsolescence are being heard. The rising popularity of the compact car is perhaps a symptom of the decline of conspicuous consumption. Expenditures for education and other cultural pursuits are rising. Admittedly, these trends are not very strong as yet, but they could prove significant.

More important is the fact that American households are generally well supplied. *Sales of most major appliances have approached the saturation level.* In pointing out this fact, this magazine does not mean to suggest for a moment that consumption has an upper limit. In economic theory, and equally well in fact, human demand is indefinitely expansible. The market for new products is limited only by the imagination and ingenuity of our inventors. Nevertheless, unlike the picture in a subsistence economy, the American consumer can afford to postpone many of his purchases. And it seems probable that many areas of demand have now been pretty well filled.

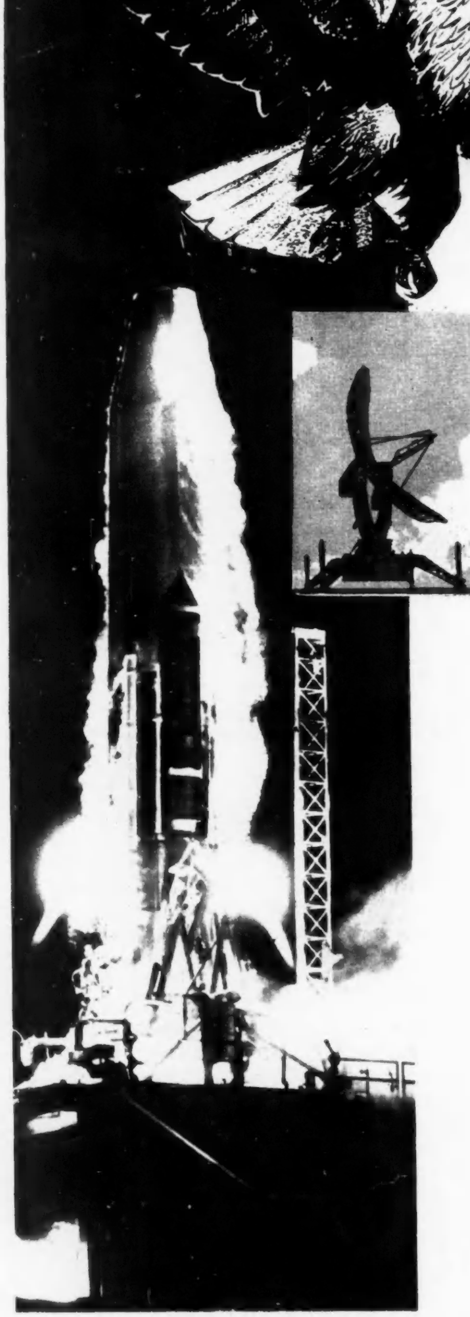
EARNINGS OF PRODUCTION WORKERS



Diminished Gold Reserve

One technical condition also works toward steps of a deflationary nature. Although our currency is no longer on the gold standard, the dollar is tied indirectly to gold by the requirement of a 25% gold certificate reserve against Federal Reserve notes. Recently, however, our "free" monetary gold stock has been severely depleted by the adverse balance of payments and resultant accumulation of foreign claims against this stock. Foreign central banks can claim gold at any time, although American citizens can not do so. Heretofore, the foreign-owned gold has stayed here because of the combination of unstable conditions abroad and attractive investment opportunities here. *Now these conditions have, to at least some degree, been reversed, and heavy foreign withdrawals from our gold stock are a very real possibility.*

If this were to happen, the immediate effect would be to reduce the domestic *(Please turn to page 646)*



A First Hand Study . . .

DEFENSE EXPENDITURES AND WHO WILL GET the ORDERS

By JEROME ELSWIT

- **Big boost in missile spending . . . where shifts and changes in orders can be expected . . . appropriations vs. actual spending**
- **Companies having highest contract priority . . . the important subcontractors**
- **Aircraft procurement programs of Army-Navy-Air Force . . . companies to get lion's share of orders—where increases may come**
- **Promising new fields in development of space systems — the various categories in electronics — communication — miscellaneous procurement — and the appropriations involved**

HOW will the $23 billion defense contract "pie" be sliced in the new fiscal year that starts July 1? The size of the portions awarded to individual companies will be of major significance to large segments of American industry. Last year, for instance, 86 percent of the aircraft industry's total sales were to the Government; the electronics industry, 22 percent; motor vehicles, 2.5 percent.

The philosophy of the new budget favors those companies already holding research or production contracts for weapon systems. The trend is definitely toward intensified development and production of most present systems (except aircraft),—rather than toward a multitude of prime contractor competition on brand new systems.

This trend, in turn, strengthens the operation of what is known as the "In" law—those companies already "in" with large defense contracts generally tend to remain in. The roster of the biggest defense contractors carries largely the same names year after year, although their positions relative to one another vary. (See Table I).

There is, however, an important qualification to the "In" law. The swift changes in technology and in military concepts of the past few years have put a premium on the ability of company managements to keep one jump ahead of the changes, to expand research facilities, and to cut costs as increasingly complex weapons become more and more expensive. "Ins" who fail to keep abreast face the prospect of becoming "outs," as the contractor lists will also testify.

Companies Face Continuous Shift and Change

It is in response to this fluid situation, aggravated by perpetual budget crises at the Pentagon, that causes automobile and electronic companies to turn to building missiles, — airframe manufacturers to strengthen their electronics capabilities and peer into outer space, so that suddenly we find there aren't enough scientists to go around. As President Eisenhower told the Congress in his Budget Message, the strategy and tactics of U. S. military forces "are now undergoing one of the greatest transitions in history." The suppliers and equippers of those forces are being made increasingly aware of that.

The President went on to warn, however, that the transition from conventional-type to missile-type warfare must be made with care to avoid an imbalance, since the military might be called on for a variety of emergency situations. Thus we see a budget that calls for slightly increased outlays for such pre-space age hardware as guns, tanks, and vehicles, at the same time that missile procurement, electronics, and research are also expanded, while funds for manned aircraft and for facilities' construction are cut. (Table II).

There are significant changes within each category. For all missile systems, the Pentagon plans to obligate close to $7 billion during the 12 months starting July 1, including money for research, test, procurement, site construction, and associated ground equipment. Significantly, this will be the first time that the long-range missiles, up 16 percent from the current year's program, will exceed obligations for either shorter range surface missiles or for all other types.

Companies Having Highest Contract Priority

To see who will receive these obligations in the form of contracts, let us examine the missile programs. The four long-range ballistic missile projects, are as follows:

(1) **Atlas** — Convair Division. *General Dynamics Corp., is prime contractor, North Amer. Aviation supplies propulsion.* Other major subcontractors, *General Electric, Burroughs Corp., Arma Corp. Now operational and in production, present plans call for a total of 13 10-missile squadrons, with an estimated on-the-launching-pad cost of $10 million each. About $1 billion is believed to be in the 1961 program, including a substantial amount for site construction.*

(2) **Titan** — *Martin Co. is prime contractor, Aerojet-General* (subsidiary of General Tire & Rubber Co.) *supplies propulsion.* Other major subcontractors, *Avco, Bell Telephone Labs., Sperry Rand. Still in advanced development, a series of test failures have not shaken the Pentagon's faith in it. About $1 billion is estimated in the 1961 program, including considerable funds for site construction. Fourteen 10-missile squadrons are tentatively planned.*

(3) **Minuteman** — *Boeing Airplane Co.* is prime contractor, *Aerojet-General* and *Thiokol Chemical Corp. to provide propulsion.* Other major subcontractors, *Avco, North American,* possibly *Hercules Powder Co.* Lighter and cheaper—about $1.5 million each on the pad—than its two big brothers, *Minuteman, while still several years away from operational status, has the brightest prospects of the three Air Force intercontinental ballistic missiles.* It will be carried on roving railroad cars as well as sited in underground remote-controlled silos. *American Machine & Foundry Co.* and *ACF Industries are jointly developing the railroad launcher.* An estimated $500 million is allocated in the 1961 budget. Congress would like to increase this, but the Pentagon insists that the program has optimum funding.

(4) **Polaris** — *Lockheed Aircraft Corp.* is prime *contractor for the missile system, with propulsion by Aerojet. General Electric is responsible for guidance production. The submarine-launched Polaris is expected to share with the Minuteman the major U.S. nuclear strike responsibility by mid-1963. Navy leaders speak of a 45-submarine force, each armed with 16 Polaris missiles. It is expected to be operational by the end of 1960, with $952 million programmed in the 1961 budget.*

Table I — Twenty Biggest Defense Contractors

A comparison of the firms who have received 50% of total military prime contract awards

Company	Fiscal Year 1959 Millions of Dollars *	Fiscal Year 1959 Cumulative Percent of U.S. Total	Rank FY 1959	Rank FY 1958	Rank 1955-1957
U. S. Total	$22,591.8	100.0			
General Dynamics	1,616.4	7.2	1.	2.	1.
Boeing	1,166.5	12.4	2.	1.	4.
North American Av.	1,018.1	16.9	3.	7.	5.
General Electric	914.0	21.0	4.	3.	3.
Lockheed	898.5	25.0	5.	4.	7.
Douglas Acft	676.4	28.0	6.	8.	9.
United Acft	538.2	30.4	7.	5.	2.
Martin Co.	524.0	32.7	8.	10.	11.
Hughes Acft	494.0	34.9	9.	9.	8.
Amer. Tel. & Tel.	476.5	37.0	10.	6.	6.
McDonnell Acft	403.5	38.8	11.	13.	10.
Sperry Rand	403.2	40.6	12.	11.	18.
Raytheon	392.6	42.3	13.	22.	19.
Chrysler Corp.	323.2	43.7	14.	20.	45.
Grumman Acft	300.2	45.0	15.	21.	—
Republic Aviation	280.5	46.2	16.	19.	20.
Internat. Bus. Mach.	276.9	47.4	17.	14.	14.
Bendix Avn	271.3	48.6	18.	24.	16.
Westinghouse	238.0	49.7	19.	18.	25.
General Motors	210.7	50.6	20.	17.	15.

N.B.—Between 1957 and 1959, contract awards for missiles and aircraft rose from 30% of the total to 64%.

Based on official.

Department of Defense records.

* Dollar figures represent net value of new procurement actions minus cancellations, etc.

Table II — What the Military Will Buy in Fiscal 1961

	Expenditures FY 1960	Expenditures FY 1961	Obligations FY 1960	Obligations FY 1961
	(Millions of Dollars)			
(Combined Procurement and Research, Development and Testing):				
Aircraft	$7,132	6,477	6,442	6,459
Missiles	4,832	4,953	5,039	5,287
Ships	1,790	1,783	1,665	1,891
Other procurement items	3,183	3,428	3,790	3,762
Procurement Only: (broken out from above)				
Ordnance, vehicles	573	617	818	1,023
*Electronics and communications	906	1,096	1,330	1,244
Military Construction	1,670	1,359	1,497	1,382

*—Includes independent systems only; does not include electronics which are integral components of missiles, aircraft, etc.

About $350 million of this is for the special nuclear submarine. The two private yards so far participating in this program are Electric Boat Division of *General Dynamics*, and *Newport News Shipbuilding Dry Dock*. Components contractors include Westinghouse, General Electric, Sperry Rand. As soon as the missile is proved out, substantial additional funds will be alloted for this purpose, and for new submarines as well.

Subcontracting on Missile Programs

It must be borne in mind that an estimated 35-40 percent of the money for the big missiles is subcontracted out, and ground support equipment is another large segment. The Air Force, for instance, programs $1,081.7 million for missile procurement and production for 1961, and another $802 million for missile ground support equipment. The prime contractor, of course, receives a percentage for his administration of subcontracts, under the "weapon system concept" of management.

In the Air Force programs, there is also the unique arrangement with a systems management *firm, Spaee Technology Laboratories* (STL), which occupies a position between the prime contractors and the Air Force and shares in the funding. STL is a subsidiary of *Thompson Ramo Wooldridge*, and as a result, largely of Congressional criticism of this arrangement, the whole relationship is now under review. STL last year stood 17th in a list of 500 largest research and development contractors, with net awards of $61 million.

Appropriations vs. Actual Spending

Not all the ballistic missile programs are on the same uptrend as the four above. The great transition in strategy and tactics that President Eisenhower spoke of is reflected in the intermediate range ballistic missile (IRBM) programs, **Thor** and **Jupiter**.

A production phase-out has been ordered for both, and for a variety of reasons ► vulnerability of exposed bases, ► reluctance of European nations to accept them, ► increasing availability of other delivery systems.

About $100 million was invested in each system, with the results of the phase-out to be felt full-strength for the first time in fiscal 1961 by the contractors, *Douglas Aircraft Co.* **(Thor)**, *Chrysler Corp.* **(Jupiter)**, and *North American (propulsion for both)*.

Thor, of course, *has been given a prime place in the military and civilian space programs as a launching vehicle, but is expected to be succeeded soon by* **Atlas** *and later more sophisticated boosters.*

► A missile which is programmed for almost half a billion dollars in fiscal 1961 but which may also run into "transition" trouble is the *Air Force's Bomarc antiaircraft missile*, built by *Boeing* (subcontractors Aerojet, Marquardt Aircraft Co., Westinghouse, Farnsworth Electronics).

Under Congressional pressure last year, the Pentagon cut the planned deployment of **Bomarc** down to 18 squadrons, of which *only two are now operational.* With its continued preoccupation over a prospective ballistic missile, rather than a manned aircraft threat, and in the face of six successive failures of the latest version of the missile (Bomarc B), *Congress may well cut into the $421,500,000 Bomarc program to obtain additional funds for a missile defense project such as an airborne alert for the heavy bomber force.*

► The Army's **Nike Hercules** antiaircraft missile may run into some of the same trouble. It, too, was scaled down last year. However, it is a less tempting target for attacks on Capitol Hill this year, being funded for only $111,400,000 in the new budget and scheduled for virtual completion. Prime contractor is *Western Electric Co.* (subsidiary of American Telephone & Telegraph), with Bell Telephone Laboratories and *Douglas Aircraft Co.* as associate contractors, and *Thiokol, General Electric,* and *Aerojet* among the principal subcontractors.

► This prime contractor team has also sired, out of the earlier Nikes, the **Nike Zeus antimissile missile.** While it is the only active defense against enemy ballistic missiles now in sight, and is claimed by the Army to be ready for production, Pentagon leaders feel that too many problems connected with its operation remain unsolved. Over $100 million is programmed for studies on other types of defense against ballistic missiles, under the Defense Department's **"Defender"** project.

One problem certainly is the cost, estimated at $12 billion and up, for an effective number of installations. While the scientists make up their minds, the program continues to be funded for several hundred million dollars a year for further development. Major subcontractors include Thiokol, Grand Central Rocket Co. (recently acquired by Lockheed), Lear, Radio Corp. of America, and Sperry Gyroscope.

Miscellaneous Missiles

► The Army is rushing development of its solid-fueled **Pershing** battlefield missile, with the first test firing expected at Cape Canaveral any day. An estimated $150 million is in the 1961 budget for it, with *Martin* the prime contractor; subcontractors are *Bendix Aviation* and *Thiokol.* The Army will continue buying the **Honest John** *(Douglas, Thiokol)*, the **Lacrosse** *(Martin, Thiokol)* tactical missiles, and the **Hawk** *(Raytheon, Northrop, Aerojet, Goodyear Air-*

craft) antiaircraft missile for troops use. The solid propellant **Sergeant** battlefield missile *(Sperry Utah, Thiokol)* will be brought to the production stage, as will the **Red Eye** portable antiaircraft system *(Convair)*.

The Air Force's **Hound Dog** air-to-surface missile will be in full production, with $170 million earmarked *(North American, Pratt & Whitney, Marquardt)*. The successor to Hound Dog in about three years, the ballistic **Sky Bolt** (Douglas), will be in early research and development, in a $287 million program. The subcontractors are Aerojet, Northrop, *Boeing and General Electric*.

One more year of production is planned for the Air Force **Mace** surface-to-surface tactical missile, with $39 million programmed *(Martin A. C. Spark Plug*, a division of *General Motors)*. The regard with which the Air Force holds the Mace is indicated by its action in finding $100 million somewhere this year to finance continued production, after Congress struck the item from the 1960 budget.

The Navy plans to put an estimated $50 million into development of the **Eagle** *(Bendix-Grumman)* air-to-air missile. The Navy's $464 million missile procurement program also includes multi-million dollar buys of the **Sparrow** *(Raytheon, Aerojet, Thiokol)* and **Sidewinder** *(Philco, General Electric)* air-to-air missiles and the **Talos** *(Bendix, McDonnell)*, **Terrier** *(Convair, Northern Ordnance)*, and **Tartar** *(Convair, Aerojet, Raytheon)* fleet air defense systems.

Increased purchases are expected to be made of the **Bullpup** *(Martin, Thiokol, Thompson Ramo)* air-to-surface missile, for Navy, Marines, and Air Force. The Air Force will continue to buy **Falcon** *(Hughes, Thiokol)* air-to-air missiles, and finish the **Quail** *(McDonnell, General Electric, Bell Aircraft)* decoy missile program.

Aircraft Program

Despite the mushrooming growth of missiles, the military will still obligate a tidy sum for manned aircraft in the next fiscal year—$6,459 million. This money has been squeezed out by reducing the types of planes bought. Administrative, training, and helicopter types have been cut, and certain combat aircraft have been eliminated entirely or cut back drastically in procurement or development.

The real clue to the manned aircraft situation is in the figures for "new money" requested from Congress, which will govern the award of contracts later on, when present funds carryovers from previous years run out. The Pentagon is asking for $5.2 billion in new money for aircraft procurement and development, compared with $6.8 billion this year. For missiles, on the other hand, the new money request rises from $4.5 billion to $5.3 billion.

The Air Force plans to obligate $3.2 billion for aircraft procurement and production, plus $285 million for ground support equipment. The **B-52 intercontinental bomber** *(Boeing, Pratt & Whitney) is in for an estimated $450 million*, and the **KC-135 jet tanker** *(Boeing, Pratt & Whitney) for an estimated $300 million*. The **B-58 medium bomber** *(Convair, General Electric), in what will probably be its last year of production is programmed for $500 million.*

Going counter to the general trend in manned aircraft is the tactical aircraft field. The **F-105 fighter-bomber** *(Republic, Pratt & Whitney) is due for a 50 percent increase, to about $260 million.* Funds for troop airlift will be increased 40 percent, with $70 million provided for the **C-130B turboprop Hercules** *(Lockheed, Allison)*.

The Air Force is hopefully scheduling $50 million for the development of a jet cargo plane for the Military Air Transport Service, and keeping its fingers crossed that recent concessions to the commercial air carriers on a bigger share of military traffic will prevent a recurrence of last year's Congressional denial of a similar amount.

Another $200 million or so is expected to be spent on trainer aircraft such as the **T-37** *(Cessna)*, **T-38** *(Northrop)* and the **T-39** *(North American). North American will feel the effects of the cancellation of the F-108 interceptor and the sharp cutback in the B-70 bomber development program, while Lockheed and Convair will feel the absence of any 1961 buy of interceptors. About $75 million in development money will be used for the B-70.*

Between 30 and 40 percent of the aircraft contract dollar is subcontracted. As with the propulsion manufacturers in the missile field, the aircraft engine producers are probably in the best position, especially since most Air Force and *Navy jets use either General Electric or Pratt & Whitney engines.* These two companies also share in the nuclear-powered aircraft development program, to be funded at about $150 million. *(Please turn to page 642)*

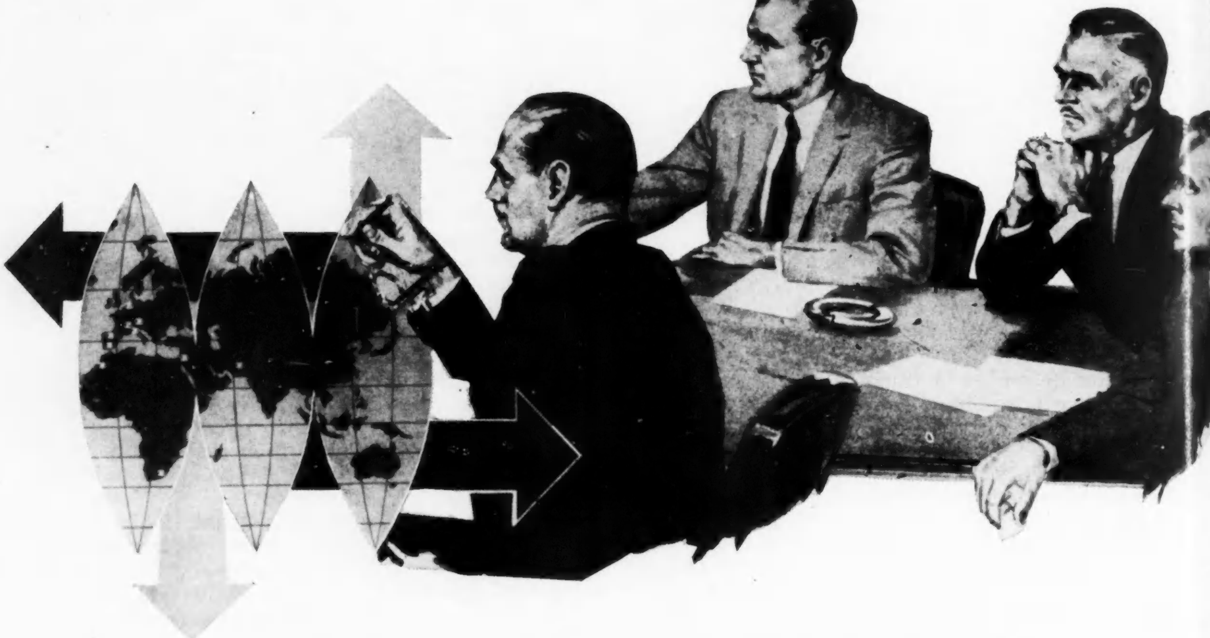
Table III — Major Missile Programs—Fiscal Year 1961

Missile	Prime Contractor	Propulsion	Estimated Funding (000)	Remarks
Atlas	Convair	North American	$1,000,000*	In production
Titan	Martin	Aerojet	$1,000,000*	Advanced development
Minuteman	Boeing	Aerojet, Thiokol	500,000*	Research and development
Polaris	Lockheed	Aerojet	952,000**	Increased outlays probable
Bomarc	Boeing	Aerojet, Marquart	421,500	In danger
Hound Dog	North Amer.	Pratt & Whitney	170,000	
Nike Hercules	Western Elec.	Thiokol	111,400	Being phased out
Nike Zeus	Western Elec.	Thiokol, Grand Cent.	300,000	Advanced development
Pershing	Martin	Thiokol	150,000	Advanced development
Mace	Martin	Allison	39,000	Being phased out
Sky Bolt	Douglas	Aerojet	287,000	Early research and develop.
Eagle	Bendix Av.	Grumman	50,000	Research and development
Thor	Douglas	North American	***	Being phased out
Jupiter	Chrysler	North American	***	Being phased out

*—Includes base construction program of several hundred million dollars (Atlas, Titan).

**—Includes construction of submarines amounting to approximately $350 million.

***—No new obligations contemplated; some pay-out continues on earlier contracts.



CAPITAL FORMATION IN THE UNDERDEVELOPED AREAS

— Road to economic gains — and social justice

By NORMAN A. BAILEY

- **Underdeveloped countries that have capital invested abroad — yet call for aid and grants — but paradoxically create hazardous atmosphere for private foreign investment**
- **Contrasts in meeting internal capital needs through Communism — state capitalism — and free enterprise — and the process**
- **Hazards of economic experimentation in underdeveloped countries lacking executive know-how**
- **Comparing progress in Mexico and Puerto Rico with Brazil, Argentina and Chile**
- **What are the means to economic development and higher living standards**

SINCE the end of the second World War the amount of material in book and pamphlet form written about economic development in the underdeveloped areas by international agencies, governments and individuals would fill a good-sized library. Unfortunately, a large portion of this material is made up of healthy doses of statism, wishful thinking, hopeful prognostications and unrelieved gloom. Three-year, five-year and seven-year plans have increased in volume year after year, and year after year the goals have been reduced or abandoned. Money flows into the underdeveloped areas of the world from many sources, but progress is minimal and in some cases nonexistent. The crystal ball is polished up, more books are written, more plans are formulated and the cycle begins once again. All this because a simple and obvious fact is pushed aside, ignored or purposely forgotten. *A country is developed through the process of capital formation. It cannot be done any other way.*

Money is invested in a production or importation of capital and consumer goods, services, transportation, public utilities and so forth. The money that these investments generates is reinvested in more of the same goods and services. A very simple, and fundamental principle, and yet how easily it is forgotten and ignored by the economic wizards, witch-doctors and soothsayers that abound in both the advanced and underdeveloped countries.

Not that they violate the principle, *for the principle cannot be violated,* any more than the law of gravity can be violated, *but they do their best to see that its operation is hampered, hamstrung, obstructed and crippled.* They thus become their own worst enemies, partly out of ignorance, partly out of ideological fanaticism; *in many, many cases a country whose industrial development and general economy could be booming, is limping haltingly along the path to prosperity, and threatens at any moment to collapse entirely.*

Internal Investment Is Crux of the Matter

There are three main sources of capital available to any given country: public international investment, private foreign investment and internal investment. Much has been written about the first two, of their advantages and drawbacks. Very little has been written about the third. *And yet internal investment is by far the most important source of capital funds for any country, whether developed or underdeveloped.*

This is another fact which is ignored or overlooked, and there is no more dangerous tendency into which the leaders of a nation can fall. The cry now is for international monies, as if capital from abroad were somehow more useful, more wealth-producing, more valuable than capital generated internally. Indeed, *many of the underdeveloped countries have large sums of their own money invested abroad, or simply earning a small yearly interest in U.S. or Swiss banks.*

These funds sometimes amount to hundreds of millions of dollars, and in many cases these same countries are the ones most clamorous for ever-greater international lending.

One Latin American country in dire economic straits has $500,000,000 invested or deposited in the United States alone, and its investments and deposits in Europe may well amount to another half billion, the total greater than its development budgets for the last five years put together!

International Borrowing

Let us consider the scope and value of international public sources of capital, that is, loans and grants from governments and from international organizations. There are many such organizations, and more are formed almost yearly. By far the most important of these is the International Bank for Reconstruction and Development (World Bank), which in the fiscal year ending June 30, 1959, lent a total of $703,000,000 *(not all of which went to the underdeveloped countries).*

The World Bank is a profit-making organization, and all its loans are made on a self-liquidating basis. In fiscal 1959 its gross income was $122,000,000 and its net profits $46,000,000. At the end of that period it had reserves totalling $420,000,000. Recently the bank's capital was increased to 21 billion dollars, and it has successfully placed many bond issues in the United States and Western Europe, including an issue of $125,000,000 placed in New York this month.

The International Finance Corporation, the *Development Loan Fund* and *various U.N.* and *O.A.S. agencies* have been operating along with the bank for some years now. Four new agencies opened for business recently or are now in the process of formation ►the *U.N. Special Fund for Economic Development,* ► the *European Investment Bank,* ► the *Inter-American Development Bank* and ► the *Arab Financial Institution for Economic Development.*

In recent years the various international economic development agencies have been providing slightly over one billion dollars per year to the underdeveloped countries. With the new institutions this total will rise to perhaps a billion and a half, or at the most to two billion dollars within the next five to ten years, given present plans. *Non-military governmental loans and grants,* mostly from the *United States government* and the *U.S. Export-Import Bank* have run to between a billion and two billion dollars yearly.

It is obvious that given the magnitude of the task —namely, to raise substantially the standard of living of four-fifths of the world's peoples, this entire yearly capital inflow of two to three billion dollars is most inadequate. Furthermore, it will *not* become very much greater.

The *inhabitants of the industrialized nations will not agree to having their standard of living lowered. They will not even agree to having the rate of growth in that standard of living appreciably lowered.* They and their forebears created the wealth which they now enjoy, and to put it crudely they control the necessary force to see that it is not taken away from them. Note also that between 1955 and 1958 the foreign public debt of the underdeveloped countries rose five billion dollars and in the same period their annual debt service rose fifteen percent.

On the Other Hand

International loans and grants are, of course, in themselves a good thing. Most of the investments made by the World Bank and the other organizations mentioned are in such fields as electric power, agriculture, port facilities, transportation and communications, where private capital is unlikely to be attracted. Such investments can be perfectly sound and welcome *marginal* additions to gross capital formation in the underdeveloped countries.

In *practice, however,* even such loans and grants as are available do not have the total effect that they should. All the best wishes and good will in the world will not alter the fact that the governments and beaurocracies of the underdeveloped countries are inefficient always and corrupt usually. A large proportion of the money that they receive is either siphoned off into various receptive pockets or simply wasted. Another bad effect of these loans and grants is that they are often looked upon and treated as a substitute for internal effort and initiative, which they are not, and cannot be. As such they may be highly dangerous.

Capital With Advantages of Know-How

Private foreign investment does not share many of these dangers. This is because private capital is kept in the hands of those who know how to utilize it, and invest it for the purpose of making a profit. This capital, then, generates more capital, some of which stays in the country in the form of taxes, royalties, wages, salaries and reinvestments, and most of which eventually returns in the form of better methods, lower costs and greater efficiency, the fruits of the proper employment of capital. Private capital can make a very welcome and valuable contribution to the economic growth of an underdeveloped country, as foreign capital made a contribution to the development of this country in the nineteenth century. However, the entire private capital investment of the developed countries in the underdeveloped countries is tiny in terms relative to their internal investment and investments in each other. The accompanying table gives U.S. private long-term investments by regions.

As of December 31, 1958, total U.S. direct and

U. S. Private Long-Term Investments By Regions

(in millions of dollars)

	1897	1914	1929	1935	1943	1950	1956	1958
A. All long-term investment:								
Western Europe	151	692	4601	3026	na	na	5224	6714
Canada	189	867	3660	3658	na	na	11693	13842
Latin America	308	1649	5429	4551	na	na	8251	9769
Rest of the World	36	306	1703	1606	na	na	4514	5217
Total	684	3514	15393	12841	na	na	29682	35542
B. Direct Investment only:								
Western Europe	131	573	1340	1370	2045	1720	3520	4382
Canada	160	618	1657	1692	2378	3579	7460	8929
Latin America	308	1281	3705	3261	2721	4735	7459	8730
Rest of the World	36	180	851	896	718	1754	3738	4180
Total	635	2652	7553	7219	7862	11788	22177	26221

portfolio investments overseas amounted to thirty-five and a half billion dollars, *about seven percent of our gross national product for the single year of 1959!*

This is not all, however. Of this total, twenty and a half billion, or *57 percent*, was invested in Western Europe or Canada, which are not under-developed areas, whereas only about *fifteen billion* was invested in all of Latin America, Africa, Asia and Oceania (even this total includes sizeable sums invested in Australia and New Zealand).

Obstacles in Underdeveloped Countries

To make matters worse, rather than trying to encourage a greater inflow of private funds by welcoming foreign investment and treating it well, the governments and peoples of most underdeveloped countries do their best to drive it out, or prevent it from entering in the first place. That they have not been entirely successful is a tribute to the spirit of enterprise and the necessity for raw materials.

In the entire year of 1958 the gross capital inflow, *public and private, to the underdeveloped countries amounted to five billion dollars.* In the same year 9 billion dollars were spent in the United States on liquor and tobacco alone. If the entire five billion dollars had been distributed to the inhabitants of the Republic of India let us say, each individual would have received seventeen dollars.

Contrasts in Meeting Internal Capital Needs

This leaves internal capital formation. There is not one of the industrialized countries in the world today that did not develop largely through its own efforts. The methods, of course, differed. ► In the case of the United States, England, France, Germany and so forth, it was by means of more or less free enterprise. ► Japan developed through state capitalism and Russia through communism. *But they all industrialized through the domestic formation of capital.*

In Communism—expropriation, liquidation of the kulaks, low consumption, miserable wage rates, slave labor—these are simply the formation of capital, communist-style. **Under Capitalism** — capital is formed by the reinvestment of profits, interest and dividends. Only in the most primitive manufactures is the part of labor in the formation of capital important. High productivity is the result of mechanization, which in turn is the result of the investment of capital. That is all. This very simple concept is one of the most misunderstood, maligned and attacked, of any basic principle of economics, but the attacks and insults do not change the facts—they merely lead to the accomplishment of the same process through brutal, totalitarian methods.

For the formation of this capital in a free society many things are necessary, among them a high level of profits, a spirit of capitalistic enterprise and a sound wage scale. In some cases there is much money to be made in underdeveloped areas, but not more than is commensurate with the risk involved. Even given the risk the return is not fantastically high by any means. Between 1956 and 1958 the average profit of U. S. enterprise in Latin America was twelve percent, and that average included very high earnings in petroleum. Yet even so, capital invested in these countries follows very closely the curve of earnings. Another fundamental proposition that the underdeveloped countries would rather forget—money, whether domestic or foreign, will be invested where profits can be made.

Hazardous Economic Experiments

Many of the underdeveloped countries—in fact, most of them, have enacted, through the best of motives, very advanced labor and social legislation. In many of these countries the union movement is well-developed and powerful, and has the sympathy and support of the government and public vis-a-vis management. There is little or no realization that real wages must and will be moderate in an underdeveloped country, and that there is nothing, absolutely nothing, that governments, labor unions, or the enterprises themselves can do about it. The level of wage rates is a result of the investment of capital, *not* vice-versa, and wages will not rise unless profits can be made; substantial, continuing and secure profits.

There is no other way. Since constant and substantial wage rises unaccompanied by higher productivity can lead only to inflation, some underdeveloped countries have attempted to take the easy way out and finance industrialization with ever-greater issues of paper money. Certain economists have even elevated inflation itself into a principle of economic development, a fine example of making a virtue of necessity. It is true that inflation is a way to expropriate the populace and confiscate its savings, and thus is a sort of bastard method of forming capital, but inflation also causes available local funds to be invested in non-productive enterprises, such as land speculation, and in any case prolonged and severe inflation inevitably results, sooner or later, in disgust with the government and collapse of the economic system.

To illustrate this I shall use as examples various Latin American countries, both because available statistics are much more plentiful for these nations

than for the African or Asian countries and because they have had a longer history of attempts at economic development.

For the last three decades **Mexico** has been developing steadily at an annual rate of about six percent per year, and since Mexico's population rise is about two and a half percent, there has been a regular rise in the standard of living of the Mexican people of about three and a half percent per year. It is true that Mexico has had substantial foreign investment, but the amount (slightly over one billion dollars from the U. S.) is hardly immense. It is also true that Mexico can depend upon a large and growing tourist traffic to bring in dollars. The point is, however, that Mexico has been able to take advantage of these features, and turn them to account.

Puerto Rico has the great advantage of belonging to the United States, so that its goods and people can enter this country freely, but it had this advantage for decades before men of vision and vigor and the spirit of enterprise were found to make the advantage work for them. The Mexican and Puerto Rican people work hard, and they save. They have the incentive to work and to save for the simple reason that their salaries and savings are not rendered worthless through inflation. One of the worst results of inflation is that for some time it produces a feeling of euphoria on the part of the government, the workers and even the business men, and the realization of the real condition of the country, when it comes, is a tremendous shock.

A large amount of foreign private investment has gone into **Brazil**, which has softened the effect of Brazil's galloping inflation, *but when Brazil's gross national product is deflated, and when it is converted into dollars at the free rate instead of at the artificial official rate, the per capita gross national product is slightly over $60 (compared with the United States at $2550)!*

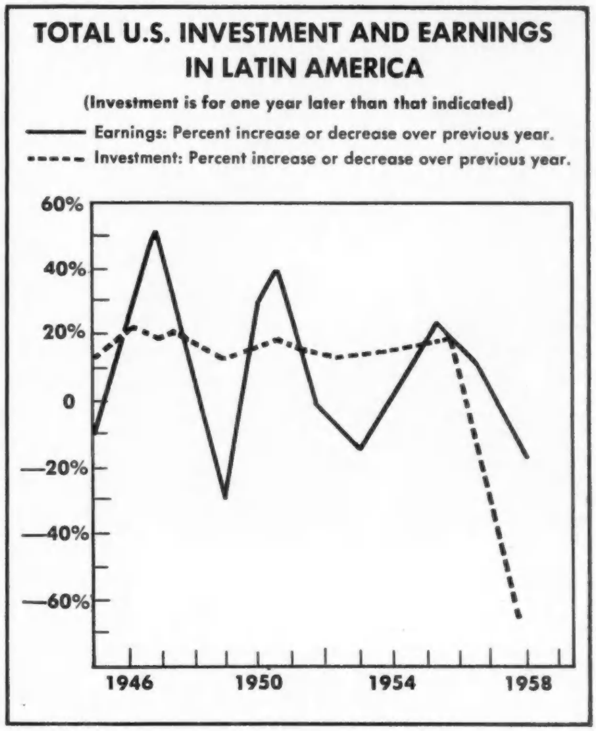
And yet Brazil in every respect is better endowed by nature with the raw materials of economic development than is Mexico. **Chile** and **Argentina** have also gone through periods of severe inflation coupled with misguided economic policies and grandiose development plans. In the past decade the standard of living of the Argentine people, once the highest in Latin America, has actually been reduced, whereas the Chilean per capita GNP has been rising at a miserable 0.6% per year.

There are few underdeveloped countries in the world which do not have some economic advantages in terms of mineral or other resources. What is lacking is the will and energy to properly utilize them.

Where Resources For Industrial Power is Absent

It must also be said that many countries will never become great industrial powers. They do not have the necessary resources, skills, raw materials or social setting to become highly mechanized and complex societies. This is no reason for despair. Neither Denmark nor New Zealand are highly industrialized countries, but they enjoy prosperity and a high standard of living by acquiescing in, and using, the international division of labor, rather than fighting it at every turn.

Unfortunately, it is also true that given our present level of technology, there are many nations that could not attain great wealth, or even become moderately prosperous, either through industrialization or specialized agriculture. These are the over-populated, underdeveloped and raw material-lacking countries, of which there are more than most people like to think. This could change of course with new scientific and technological advances, for power may be derived from the sun, food from sea-weed, and so forth. The accomplishments of man have been fabulous throughout the centuries, and in our own times what human beings can accomplish is best illustrated by the hard-working and sturdy Hollanders, with so much of the land of their small country below sea level, and their new prosperity in spite of the loss of their colonial empire.



The Vast Difference in Well-Being for the Masses Between Communism and Free Enterprise

Every country can improve its standard of living, and some may become wealthy and powerful. Even the communist countries have industrialized rapidly. But they have done it by adopting policies better fitted for beasts than men, by losing every vestige of self-respect, dignity and individual initiative. They have done it by reinvesting a fantastic proportion of the national wealth every year in order to produce more wealth. **Yugoslavia,** for example, regularly reinvests almost 30% of its gross national product. **West Germany,** with a free economy, has been the astonishment of the world since 1945. It has literally risen from the ashes, until now it rivals the United States in trade all over the world. Gross domestic capital formation in West Germany has averaged 22.5% of gross national product annually, over the last eight years. This is the only way for any underdeveloped country to develop economically.

(Please turn to page 642)

Inside Washington

By "VERITAS"

LABOR, as represented by the AFL-CIO, finds itself on an uncharted political sea. It is true that President George Meany, after some reluctance, has said organized labor will support one of the major party nominees for the Presidency—that one a Democrat, no doubt. But labor's pressing problem of the moment is which candidate of the two presently announced, or of the four or five potentials, shall get AFL-CIO support for the nomination. Further, there is the possibility of waning labor influence on the national political scene. In 1952, Meany, et al, successfully squelched the aspirations of the late Alben Barkley. Now, Meany and his cohorts ask themselves if they can repeat such dictation to the convention of 1960. Further, there is more division in labor's upper echelons than ever before, presaging considerable disagreement on just who to support as the No. 1 Democratic candidate.

MISSILE "lag" is now about ruled out as a campaign issue. Democrats, who have been blaming the present Administration for our presently-believed second place to Russia, have had a rude awakening from a "look at the record." We had virtually no ballistic missile program between 1945 and 1951, six years in which the Soviets no doubt got their large missile program under way and on a firm foundation. Our foremost missile expert has declared the period our "lost years" in the missile race, all of them during a Democratic Administration.

SUMMIT conference—insofar as Washington views it—can even now be written off as futile. The so-called "Spirit of Camp David" has long ago evaporated in the heat of Khrushchev's bombastic and sabre-rattling gestures. Diplomatic sources are certain the Russian Premier will be in a truculent mood, that before he shows up the Soviets will have made another spectacular advance in rocketry, and that he will be talking from a position of strength—in his own opinion at least. Like the Geneva Summit Meeting, the forthcoming Paris gathering is headed for stalemate with foreign ministers slated to pick up the burden. On a hopeful note, diplomats here do not see a Khrushchev ultimatum on the Berlin issue, but he will, they say, insist upon separate peace treaties with East and West Germany. In the meantime, the State Department and intelligence agencies are closely following the Khrushchev "junket" about Asia and Africa. If his receptions in these travels are tepid, we will be in position to be tougher at the Paris Summit Meeting. If the pudgy little "Sharpshooter of the Ukraine" experiences really warm welcomes, our Summit position will be proportionately weakened.

WASHINGTON SEES:

Anything near a sane solution of the grain surplus problem is not in sight before Congressional adjournment.

Twenty-odd bills relating to wheat production and acreage pend before Capitol Hill committees, while about an equal number of measures relating to corn, cotton, tobacco, peanuts and rice gather dust in committee pigeon holes. Some of them closely parallel, others vary widely, all have sufficient supporters to cause a deadlock beyond sensible compromise.

Partisan politics will cause additional confusion. Already there are complaints from the "other side of the aisle" that President Eisenhower's farm message lacked specific recommendations to overcome the costly problem—now running at $1,000 a minute for wheat storage alone.

Hearings on the various measures will be extensive, followed by prolonged closed-door Committee consideration. These time-consuming procedures betoken late May or early June before emergence of a measure ready for floor debate.

Something will come out of committees, pass the Congress, finally go to the White House for signature, but those really close to the situation predict it will be a mouse from the mountain's labor—not adequate to checking the flow of surpluses to the storage bins, this year or next.

As We Go To Press

Major tax revision by the present Congress is now very definitely "out the window," insofar as House Ways & Means Committee — supreme Capitol Hill tax body — is concerned. The Committee, through its Chairman, has now definitely solidified its position of "No tax revision this year, unless it be very minor." Concluded are hearings on taxation of co-operatives and there is the slight possibility of legislation in this area – not so much as a matter of capturing revenue for the Treasury as putting the co-ops in a less favorable competitive position as opposed to private enterprise.

The co-operatives, which originated about 1900, when there was no income tax and when their operations were relatively small, have grown into "big business," distributing and marketing electric power, farm machinery, fertilizer, oil drilling and refining, petroleum retailing, including the operation of service stations with their many motorists' needs – to say nothing of grain elevators and storage. It was 1916 when the co-ops got their tax-exempt status, and on this, sharp co-op operators have built an "empire" that is threatening to the private enterprise system. It is possible – despite the election year – that Ways & Means will bring out legislation to put the co-ops in a less advantageous competitive position.

Still hanging fire is President Eisenhower's proposal that rural electric co-operatives, now borrowing Federal money at 2%, be required to pay interest at par with Treasury borrowing costs. Despite merit of the President's proposal, Congress will "turn thumbs down," thus favoring one class of citizens against the other. The over-exaggerated estimate of farm vote volume precludes possibility of action during the present Session of Congress.

Navy-Air Force Space Feud (page 520 Jan. 30 issue) is now out in the open for all to see – and hear. Naval Chief of Operations Admiral Arleigh Burke has told a Capitol Hill Committee that the sub-fired Polaris missile has proved itself, therefore he recommends a big step-up in the Polaris programs. Despite White House "parochial" condemnation of Defense "brass," Burke has flatly stated the Navy should – and could, build six more Polaris-firing submarines – instead of three as now programmed for next fiscal year. Cost about $975 million, another nick in the $4.2 billion anticipated budget surplus. Congress can appropriate, but cannot compel construction of the new vessels, therefore there is no need for a veto or any Presidential comment. In the meanwhile, Army missile research has come through with a demonstration, not necessarily convincing, that it has developed an anti-missile interceptor. Army's Hawk has – in limited test – blasted an Honest John out of the sky. Missiles to intercept missiles are in for increasing research and development. The picture is befogged somewhat by a recent Army statement that its Nike-Zeus can "out-shoot" the Polaris. It all points up the necessity for a single missile-space agency, under civilian control that would be free of inter-service rivalries.

Retail Sales Run Behind General Economy Advance, according to preliminary data from the U. S. Department of Commerce. Dollarwise, sales are up, but a study of unit and customer purchases, reveals they are down. In January, retail sales were $16.1 billion, a two percent advance over the same month last year, as well as a like increase over the Christmas month of December. It is noted, however, that inflation and general rise of prices cut sales volume to just below the January 1959 level. Further, most of the January rise is attributable to new car purchases rather than to purchases of soft goods for home consumption. When it is all tabbed up, December sales will be behind those of November, while the gross national Product has moved upward about 2.7 percent.

U. S.-European Travel Will Move Upward This Spring and Summer, thus draining more dollars from our Ft. Knox reserves and at the same

time cutting into domestic automobile sales. Preliminary figures from the Department of Commerce and the American Automobile Association, indicate that around 150,000 Americans planning European travel in the next few months will purchase cars overseas, cruise Europe at their leisure and then bring their cars home. Even though ocean freight rates are high, the importers of "used" cars can save from $200 to $700 on each car bought there, used there, and then brought here as used vehicles. Estimate of customs fees to be lost are not available, but it seems certain that U. S. auto manufacturers will lose sale of at least 150,000 units this year.

Payola gets close Federal Trade Commission observation, but not to the exclusion of deceptive Radio-TV Advertising. Since last Dec. 1, FTC has initiated nearly 50 complaints against record producers and distributors, charging unfair competition in "payola" payments to disc jockeys for "plugging" phonograph records. The complaints are not prosecutable in criminal courts, but can bring forth cease and desist orders, after which criminal action is available. Meanwhile, with a greatly augmented radio-television monitoring force, FTC will continue its close check on advertising that may be construed as "deceptive."

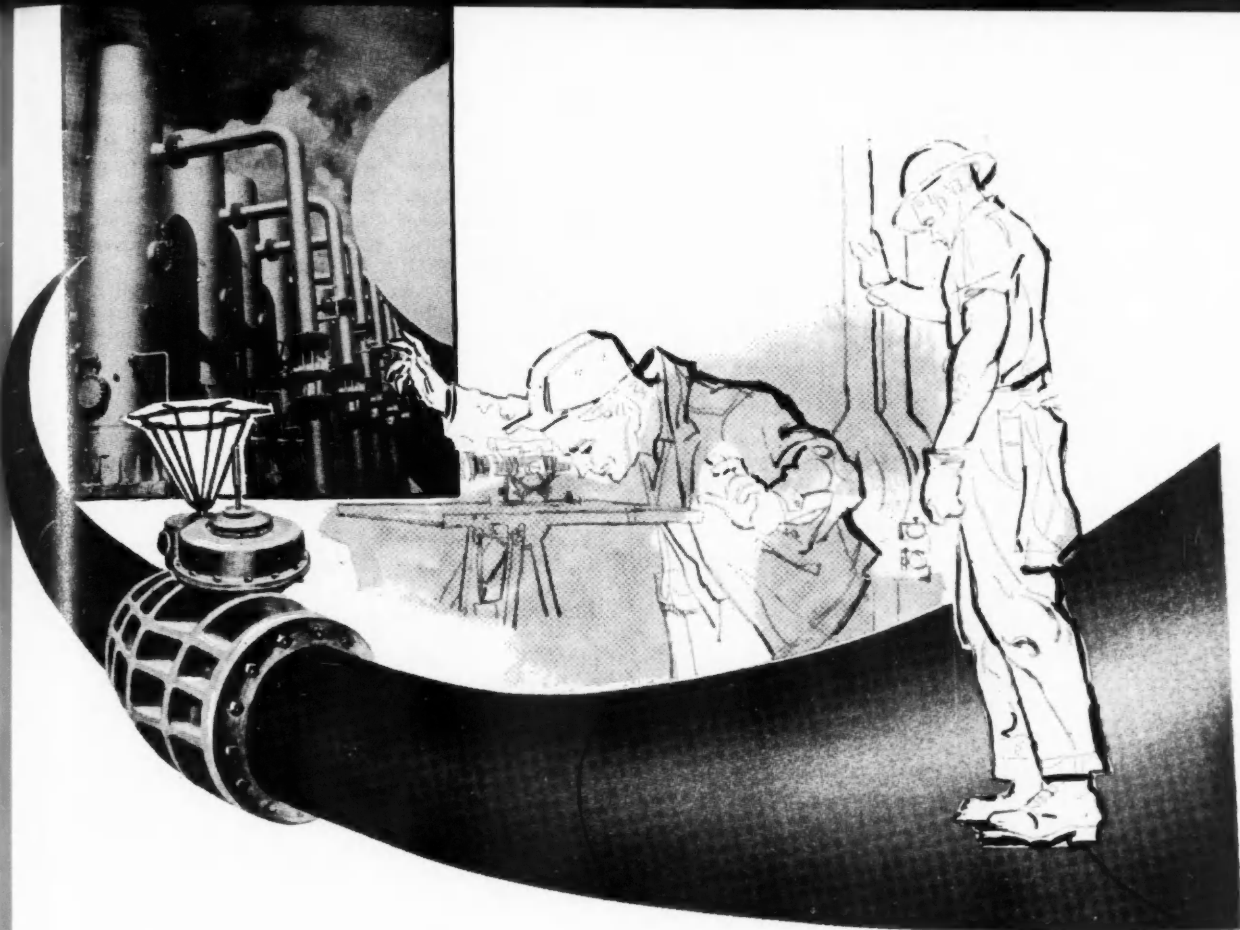
Federal Communications Commission (FCC) has come up with suggested legislation, aimed primarily at rigged television shows and lax programming by networks and local stations. House Interstate Subcommittee on Legislative Oversight takes dim view of the FCC proposal — will write its own legislation. Passage, however, is doubtful. It may clear the House, but Senate Interstate Commerce Committee will want a careful and time-consuming "look-see." Best educated guess at this moment is that the whole "mess" will be dumped into the lap of the next Congress.

Minimum wage legislation may be stalled in House Committee and thus die before adjournment. This despite fact that House Speaker Sam Rayburn, of Texas, forecast passage shortly after Congress met on Jan. 6. A Senate Labor subcommittee has given its approval to a $1.25 per hour minimum, and brought about 10 million persons (heretofore exempt) within the Act's provisions. Full committee has yet to take up the subcommittee's recommendations. House Education & Labor Committee opens hearings on the subject early this month, and doubtless will okay a measure similar to that of Senate bill. But getting the measure to floor of House will be problem of supporters. House Rules Committee, dominated by Southern influence, will be slow to clear the bill for debate unless the $1.25 per hour figure is cut back to $1.15 and present exemptions are retained. Further, there will be the time-consuming procedure of reconciling Senate-House versions through conference between representatives of both chambers.

Russian Atlantic cable interference definitely established but don't look for confirmation. Official Government attitude will continue that the three cable-breaks (Atlantic) of last year were of unknown origin. Navy, however, is convinced the interruptions were caused by Soviet attempts to determine how the cables carried sonar channels as well as voice transmission circuits.

Political picture is foggy and will continue so for months to come. It is an almost 100% certainty that Richard M. Nixon will be the GOP nominee for the Presidency, although New York's Governor Nelson D. Rockefeller cannot be entirely eliminated at this moment. The fog arises when one tries to pick the Democratic nominee. Senators Kennedy (Mass.) and Humphrey (Minn.) are the front runners now, but Washington's experienced politicos rule out both of them. Kennedy because of his youth and religious affiliation. Humphrey because he is not fitted for the job, even though he boasts eight years Senatorial experience. Other potential Democratic candidates, all of them in the Senate, point to a Convention deadlock that will be finally resolved by the selection of Adlai Stevenson, already a two-time loser. In the meanwhile, residents of Yorba Linda, Calif.. are so certain that native son Nixon is to be elected that they are now building "the log cabin in which he was born."

National Labor Relations Board's work load mounts under pressure of Landrum-Griffin Act. The Board has added help and is budgeted for $17.3 million in fiscal 1961, a $2.57 million increase over current year – but needs some $300,000 more than that in order to keep abreast.



CANADA and U.S. JOINED BY MUTUAL INTEREST IN NATURAL GAS

— And the Companies Involved

By KENNETH HOLLISTER

SALE of Canadian natural gas in the United States came one step nearer this month with the conclusion of hearings before the newly formed National Energy Board. At the end of almost two months of testimony and argument it appeared virtually certain that Natural Gas would start moving southward across the border this summer. For its part, the Federal Power Commission in Washington has already authorized one important license and is holding hearings on others. In view of this impending major development it seems an appropriate time to review the position of the equities in the Canadian pipeline field.

There are essentially six proposals to export gas: 1) **Trans-Canada Pipe Lines** seeks to sell 204 million cubic feet per day at the Manitoba-Wisconsin border to **Midwestern Gas Transmission;** 2) Trans-Canada also is asking permission to sell a similar amount to **Tennessee Gas Transmission** (parent of Midwestern) on an interruptible basis at Niagara Falls (after 1961); 3) **Alberta and Southern,** a new project, proposes a one thousand mile pipe line from the Alberta border southwestward to northern California that will initially deliver 460 million cubic feet daily; 4) **Westcoast Transmission Co.** asks to sell 150 million cubic feet per day to El Paso Natural Gas Co. in addition to the already authorized 300 million cubic feet; 5) **Canadian Montana Pipeline** anticipates slightly more than doubling the 31 million cubic feet now delivered to its parent—Montana Power Co.; and 6) **Niagara Gas Transmission Co.** (which purchases from Trans-Canada) proposes to sell to St. Lawrence Gas Co. (a subsidiary of Consumers Gas Company of Canada) for ultimate distribution in New York State. This latter aplication is for the smallest quantity of gas, about 17 million cubic feet daily, and has the slimmest chance of quick success as it is faced with a competing proposal of **Niagara Mohawk Power Company** to serve the same market.

Export Application By Trans-Canada Pipe Lines

Of this group of applications the sale by **Trans-Canada** to Midwestern appears destined for quick and complete approval; the FPC already having ruled in its favor. The conection will require the least construction of the major proposals and assuming authorization by Prime Minister Diefenbaker's cabinet (a necessary procedural step) the project could be in operation before the 1960-1961 heating season. Other factors also favor approval, such as the active support of the Canadian government in construction of the line, (although by a different administration) and the export plan was implicit in the original construction.

Trans-Canada's second proposal, to serve interruptible gas to **Tennessee Gas Transmission Co.** at the Niagara Falls terminus is a somewhat more controversial sale, and also a relatively recent development. It will undoubtedly be beneficial to Trans-Canada in offsetting the low load factor operation of a new facility having no underground storage fields. Tennessee, on the other hand, could use this gas for the New York-New England market as well as injecting it in storage in northern Pennsylvania. This contract would run for a concurrent term with the export to Midwestern.

The Other Pipe Line Applications

At this time it also seems fairly certain that the **Westcoast** and **Alberta and Southern** applications will be treated favorably, although there remain several hurdles. Readers may remember that Westcoast Transmission was constructed during 1957 and 1958 to serve distributing companies in the Province of British Columbia and to export gas to Pacific Northwest Pipeline Co. (now **El Paso Natural Gas Co.**) in quantities rising from 200 million cubic feet on completion of the line to 300 million cubic feet daily after January 1, 1959. The export price of 22¢ has subsequently come under extensive criticism. Apparently because of difficulties in obtaining delivery of reserves, Westcoast has never sold the full quantity called for in its contracts to the United States. Purchases of new gas reserves in Alberta, however, permitted the company to apply to the Alberta Conservation Commission for authorization to raise its proposed exports by 150 million cubic feet per day.

Before a ruling could be obtained on this application, Alberta and Southern (an affiliate of **Pacific Gas & Electric Co.**) also sought permission to export Alberta Gas through a line reaching to San Francisco. The two companies requested export authorizations aggregating 5.2 trillion cubic feet of gas (4.2 trillion for Alberta & Southern) over a twenty-year period. Originally, the Alberta Commission favored export of a smaller amount, but last month it reversed itself, approving the original request, and noting that development of additional reserves in the province would permit export of the larger quantity without endangering the gas required to supply the Alberta market. It is also possible that the Commission was trying to show the NEB that it would not be necessary for the federal board to curtail the export permits.

In view of the magnitude of gas discoveries in Canada, especially Alberta, in recent years it may seem strange to be speaking of curtailment of sales, but there are both economic and political problems involved.

The Rising Tide of Nationalism

In recent years Canada's industrialization has been accompanied by a rising tide of nationalism. Concurrently there has been an understandable regard for development of resources for the benefit of the Canadian economy. It was for this reason the Alberta Conservation Commission first reduced the export authority of Alberta & Southern and Westcoast. It is not known, of course, how the National Energy Board will approach this problem, but there have been rumors that export will be restricted to amounts remaining after segregation of all of Canada's requirements. To the impartial observer, however, there seem to be greater pressures, such as the need for capital, to continue developing reserves which would preclude any significant reduction by the NEB at this time. A *Magazine of Wall Street* article of December 5, 1959 recited in some detail the vast discovered and probable, untapped reserves in Western Canada. This gas inevitably will be sold through the vast interconnected pipelines of the two countries.

The Question of Gas Rates

The issue of prices also is an intriguing one, but less susceptible to rationalization. Producer prices are set by contract and are not subject to direct regulation by the NEB. The competitive price at which gas can be sold in eastern Canada may put an effective ceiling on gas committed for such sale,

Possible Canadian Market Requirements For Alberta Natural Gas (billions of cubic feet)

Source: Royal Commission on Energy, First Report

	Alberta	Westcoast Transmission Company Ltd.	Saskatchewan Power Corporation	Trans-Canada Pipe Lines Ltd.		Possible Canadian Demand	
	A	B	C	D	E	F	G
1958	134	58	18	25	25	234	234
1963	195	58	18	288	189	558	459
1968	242	58	18	458	291	776	609
1973	283	58	18	652	381	1,010	739
1983	334	58	18	1,084	593	1,494	1,002

A Province of Alberta estimated requirements.
B Withdrawals by Westcoast Transmission from the Alberta Peace River area plus 1.6 billions cubic ft. annually by the Peace River Transmission Co. for local markets (projection of existing permits only).
C Direct purchases of Alberta gas by Saskatchewan Power Corporation (projection of existing permit only).
D Estimated requirements of Trans-Canada in provinces from Saskatchewan to Quebec. Prepared for Trans-Canada Pipe Lines Ltd.
E Estimated requirements of Trans-Canada in provinces from Saskatchewan to Quebec. Prepared for Alberta and Southern Gas Co. Ltd.
F Addition of columns A to D.
G Addition of column A to C plus E.

Leading Canadian Natural Gas Pipe Line Companies

	Earnings Data				Balance Sheet Data		
	1958		1959				
	Total Revenues —(Mil.)—	Net Earnings Per Share	Total Revenues —(Mil.)—	Net Earnings Per Share	Long Term Debt	Common Stock & Surplus (Millions)	Net Property
Alberta Gas Trunk Line	$ .9	$ .009	N.A.	N.A.	$30.0[2]	$14.4[2]	$35.1[2]
Trans-Canada Pipe Lines	9.0	.11	19.7[1]	d1.24[1]	206.7[3]	47.8[3]	247.8[3]
Westcoast Transmission	8.6[4]	d.19[4]	22.1[5]	d.22[5]	164.0[5]	48.5[5]	206.0[5]

d—Deficit.
N.A.—Not available.
1—1st 9 months.
2—As of 12/31/1958.
3—As of 9/30/1959.
4—1st 6 months of operations to 6/31/58.
5—Year Mar. 31, 1959.

however. Most of the present contracts will result in fairly high prices to U. S. distributors and the Federal Power Commission, whose authority begins at the border may delay approval while seeking reductions.

Rate regulation of the Canadian pipelines is still nebulous. By law the National Energy Board is required to set just and reasonable rates, but there are, at present, no guide posts. Because of the importance of the export it is probable that the orders that are granted will be issued on the basis of contract prices and investigation of rate matters will be undertaken subsequently. Because of the nature of the Canadian economy, it is not likely that rate regulation will be as strict as that of the Federal Power Commission. It should also be remembered that Canada does have provincial regulation and this has varied as widely in its approaches as the various state bodies in the United States. Thus far the National Energy Board has operated in a business-like way and has recognized its responsibilities. Despite the clamor for export it refused to be stampeded, and held orderly hearings. The same procedure is anticipated in rate matters.

Alberta Gas Trunk Line

Before turning to analysis of the pipeline companies themselves there is one unique operation directly related to all natural gas sales in Alberta. Alberta Gas Trunk Line Co. was created in 1954 to act as a common carrier within the province and to undertake activities relating to such service. Its voting stock is primarily owned by producers of natural gas. Other voting shares in nominal amounts are held by utility companies, pipelines and representatives of the Lieutenant Governor of Alberta. Shares outstanding in the hands of the public have no voting privilege. At present the company acts as a gathering system for Trans-Canada. Under terms of the contract between the two companies Trunk Line until 1961 receives 4¢ per mcf (one thousand cubic feet) of gas delivered. After that date Trans-Canada will pay an amount equal to all of Trunk Line's operating expenses, depreciation at 4%, taxes and a 7½% return on the net investment in plant plus working capital. On the basis of current deliveries to Trans-Canada, which are still somewhat below the more optimistic expectations, Trunkline is expected to earn about 40-45¢ per share in 1960.

The future of Alberta Gas Trunkline is closely related to that of gas export as it is essentially the only carrier of gas from the producing areas and it operates on a cost plus return basis. Facilities thus far constructed to serve Trans-Canada are about double the originally contemplated size and still make no allowance for possible export. By the end of this year the company will have approximately $70 million of property devoted to serving Trans-Canada. As the original contract was for a lesser expenditure it seems reasonable to assume some further incentive will be granted to Trunk Line. In this connection it may be noted that Trunk Line will probably not be subject to regulation by the NEB.

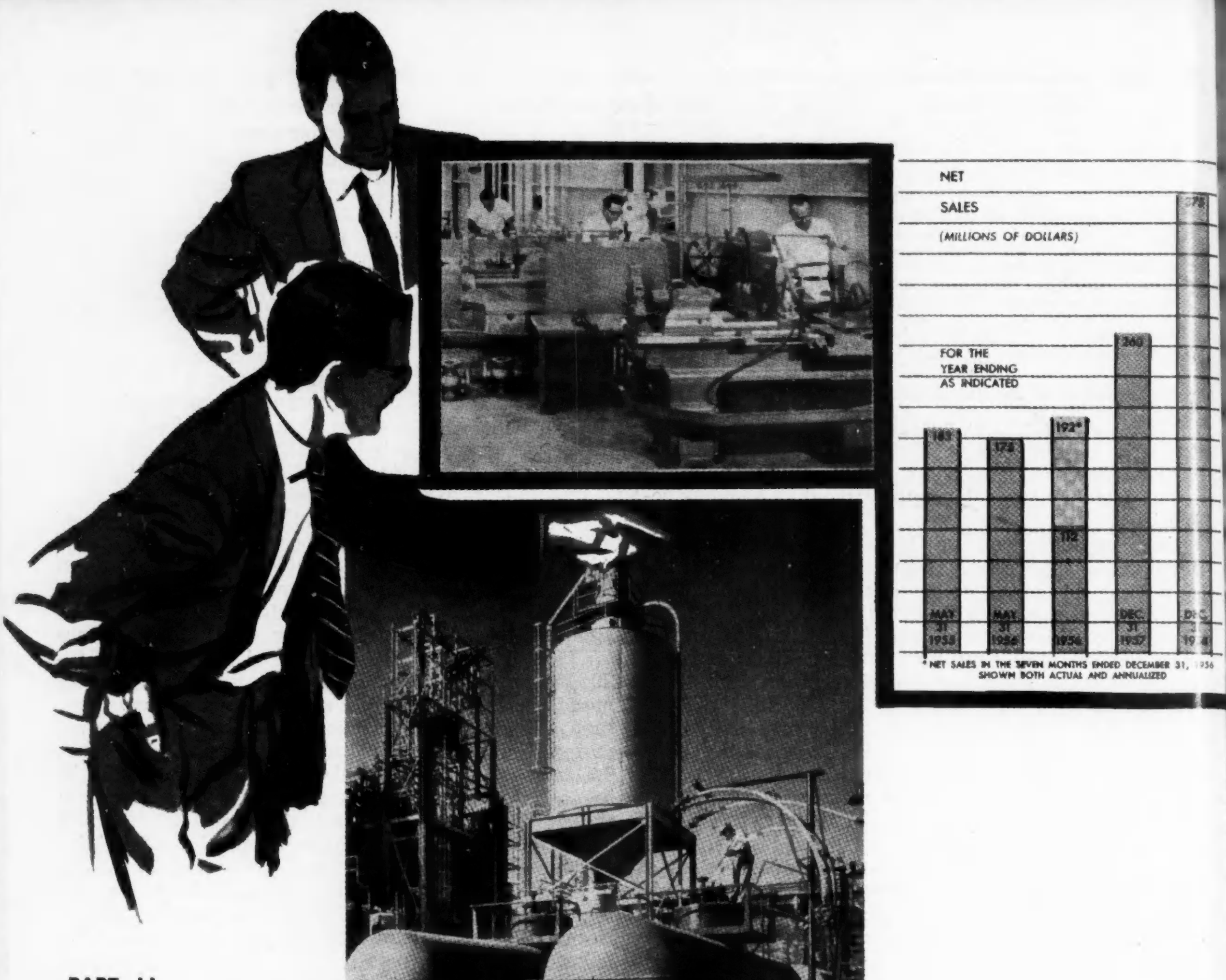
In addition to expanding to meet Trans-Canada's needs, Trunk Line is contemplating expenditures of $100 million to serve the combined facilities of Alberta and Southern, Westcoast, and Canadian Montana. Financing of this program will require some dilution but it is apparently the policy of management to maintain a leveraged capital structure of 75% debt, 5%-10% preferred stock and 15%-20% common stock and surplus. Because of rising money costs and possible changes in the earned return, earnings projections are at best rough estimates. Using an 8% return, however, and about a 6% cost of senior capital, 1963 earnings might be in the range of $1.50 - $1.75. The publicly held shares rose from the offering price of $5.25 to 21 in 1957. Since that time the range has been 30 high - 12 low. Currently selling at 25, the shares are 14.5 to 17 times estimated 1963 earnings, but are the most reasonably priced of the Canadian pipeline stocks. Because of the company's strategic position in Alberta it is certain to share in the anticipated expansion of the Canadian gas industry.

Progress of Trans-Canada Pipe Line

Construction of Trans-Canada Pipe Line was completed in October 1958 although a small portion of deliveries started during 1957. In addition, through an exchange agreement, some sales were made in the Toronto area starting in 1954. It is the largest of the Canadian pipelines, extending from Alberta to Montreal via Toronto. Peak deliveries during the past year were 371,000 mcf daily and average deliveries were 190,000 mcf. Recently the company prepared revised estimates of domestic sales growth and indicated it expects to increase deliveries to its domestic customers by 1963 to a level of 645,000 mcf on an average day and 725,000 on a peak day. In order to achieve such sales, however, customer companies in eastern Canada will have to record a compound rate of sales growth in excess of 20% annually.

In addition to the prospective rise in domestic sales, Trans-Canada has two export proposals, each of 204,000 mcf daily. As noted above, the plan to export at the Manitoba-Wisconsin border is expected to be the first to be authorized. As earnings are developed from this sale they will aid the company in financing the purchase of the $130 million Northern Ontario Section, (owned by the Government

(Please turn to page 637)



PART II

WHAT 1959 ANNUAL EARNINGS REPORTS REVEAL

Looking to 1960

by PAUL J. MAYNARD

THE analysis of annual reports this year deserves the most careful attention from all stockholders, not only in relation to company position and prospects, but for the picture it presents of the factors of strength and weakness in our economy.

While the current flow of 1959 reports will not reach its peak for a month or so hence, enough of these have appeared to give a pretty clear picture of the status of our economy as far as several key industries are concerned, as well as some of the thorny problems likely to face business in general in the forthcoming year.

The present article continues the analysis of annual reports that was initiated in our February 13 issue. As remarked therein, earnings reports on the whole were extremely favorable, considering the severe handicap of the steel strike. Of the total 98 companies covered in the tables in the present and preceding issues, all but 15 reported earnings gains, most of them substantial. The few recalcitrants were mostly in the aircraft manufacturing, metals, oil and steel industries.

Even within the latter two groups the news was by no means entirely discouraging.

Oils—Among the oils **Standard of California, Gulf** and **Atlantic** suffered earnings declines, but **New Jersey Standard, Shell, Texaco, Indiana, Ohio Oil, Socony** and **Sun** all reported moderate profit gains. Atlantic's rather sharp setback occurred despite a narrow gain

in sales, which was insufficient to overcome the higher costs, but most of the others managed better cost control. Taken altogether, the performance of the industry cannot be considered much better than neutral, and yet earnings were better than expected. Formerly the leading favorites on almost everybody's growth list, the oil stocks have lost their popularity within the last three years and have suffered a private bear market of their own. This change of attitude, while justified, now seems exaggerated. In the current year no substantial correction of the petroleum marketers' major problems—the glut in crude supplies and a slower expansion of domestic demand—can be realistically looked for, but improved refining and marketing processes within the control of management should allow at least satisfactory results. In a word, management has shown itself to be alert and able.

Within the **Steel Industry,** our previous issue commented upon two companies, **Armco** and **National,** which were partially strike-exempt and accordingly managed to report considerably higher profits for the year just ended. Two specialty companies reporting more recently, **Granite City** and **Allegheny Ludlum,** were in the same happy boat. More typical, of course, were the results of such giants as **U. S. Steel,** and **Bethlehem.** The latter owing to forced draft operations both before and after the work stoppage, was able to maintain its year-earlier sales level, but suffered an unavoidable loss of 89¢ a share in the third quarter. But then Bethlehem, in common with all of the other major steel companies that have so far reported **(Inland, Republic, United States** and **Youngstown),** was able to recover well into the black for the final quarter—an extremely creditable performance under the circumstances.

In the present year, with labor peace assured, and with the wage boost (except for some fringes) not to go into effect until December, the outlook continues favorable. Production should reach between 120 and 130 milion ingot tons, comparing with previous peak output of 117 million tons in 1955. Just the same, some serious problems relating to the longer run persist. The industry obtained in the strike settlement nothing better than a pious offer of consideration of its work rule demands. The profit margin in a heavy fixed capital industry, like steel, will improve rapidly only up to approximate capacity, which is likely to be approached this year by many companies. (Industry capacity is around 150 million tons). *Again, owing to sharply rising costs, depreciation is proving insufficient to replace worn-out capacity, let alone expand it. While the cash flow —earnings plus depreciation—in the industry is characteristically heavy, the vexatious problem of the replacement of obsolescent facilities is far from solved.* These factors suggest considerable caution in appraising indicated steel company earnings, generous as they should be in the year ahead—in the light of new emerging factors relating to inventory build-up and competition on the one hand, and foreign holdings and assets—so that each company will have to be appraised on its individual position.

The two **Automotive** giants, **General Motors** and **Ford,** to no one's surprise, both enjoyed very substantial sales gains, of 18% and 30% respectively, last year. On this larger volume GM increased its profit margin only narrowly, but this was sufficient to expand 1958's somewhat worrisome coverage of its $2 dividend to a much more comfortable $3.06. Ford, however, represents a much more volatile situation, and the combination of its expanded share of the market with excellent control of expenses—despite a quarter of a billion dollar write-off on the failure of the Edsel —caused earnings to leap from $2.12 in 1958 to $8.34 last year, a narrow gain over 1955's $8.17 and a new high in Ford's history. Both companies were affected by the steel strike but Ford made a strong comeback, to $2.05 a share, in the final quarter whereas GM showed scant recuperation. Ford's impressive performance makes some increase in the present dividend rate of 60¢ a quarter an early probability.

These two companies will certainly enjoy further sales gains. January sales, however, have disappointed the manufacturers in their expectation of hordes of eager buyers awaiting only the settlement of the steel strike before mobbing the dealers in a panic to sign on the dotted line. Over the longer run the reemergence of American Motors as a real competitive factor, the substantial penetration of the domestic market by imports, and some indications that the interest of American consumers is shifting away from "insolent chariots'" to housing and furnishings should be considered as counter-arguments to the vaunted growth of two-car families. In summary, it does look like the earnings decline in process since 1955 has been checked, but further earnings growth is likely to be at a slower rate than prior to that date.

Drugs—Several of the drug companies have also reported for 1959. Substantial sales gains of 11% and 9% were achieved by **Parke Davis** and **Smith, Kline & French,** respectively. In appraising these gains it must be recalled that this is an industry which suffered no more than negligible effects from the 1958 recession, so that these advances represented progress and not mere recovery. As the investigators in Congress are now reminding us, high profit margins are characteristic of the drug trade, and this is clearly evidenced in the performance of the two companies mentioned. It seems probable that their profit margins are now close to their maximum—the Kefauver Committee's inquiry and attendant publicity will certainly act as a damper—but opportunities for continued sales growth do not seem at all diminished. Thus, the ethical drugs look distinctly attractive as long as no unreasonable premiums for their glamor attributes are paid.

In a related but slightly different field, **Gillette** and **Bristol-Myers** both reported rather moderate earnings gains for last year, from $2.97 to $3.34 a share for the former and from $1.46 to $1.70 for the latter. Bristol-Myers, in common with many other manufacturers of proprietary drugs, has shown a tendency to expand into the ethical field, so that the once clear distinction between these two branches is becoming blurred. Gillette, however, has moved in a different direction, by seeking opportunities in product diversification that allows a more intensive use of its experienced distribution system. As the very slight variation in net income of both of these companies from quarter to quarter last year indicates, their earnings are unusually stable.

If the drug industry operates on a wide margin of profit, one at the opposite end of the spectrum is the shoe business.

Comparative Sales, Earnings & Net Profit of Leading Companies

	Net Sales (Millions) 1958	Net Sales (Millions) 1959	Net Profit Margin 1958	Net Profit Margin 1959	Net Per Share 1958	Net Per Share 1959	Net Per Share Per Quarter 1959 1st	2nd	3rd	4th
Allegheny Ludlum Steel	$201.7	$230.6	2.9%	4.8%	$1.52	$2.92	$1.18	$2.02	d$1.01	$ .73
Aluminum Co. of America	753.1	858.4	5.6	6.4	1.96	2.52	.49	.84	.56	.64
American Cyanamid	525.0	583.5	8.3	8.9	2.07	2.46	.62	.66	.61	.57
American Radiator & S. S.	476.6	517.4	3.1	4.1	1.25	1.80	.26	.32	.46	.76
American Viscose	216.9	239.8	3.2	6.3	1.36	2.98	.71	.81	.66	.70
Atlas Powder	65.6	70.7	4.3	5.5	3.80	5.15	.91	1.53	1.27	1.44
Babcock & Wilcox	365.9	332.0	3.5	4.8	2.11	2.58	.72	.92	.42	.52
Bethlehem Steel	2,005.9	2,055.7	6.8	5.7	2.91	2.44	1.06	1.59	d .89	.69
Bristol Myers	113.8	N.A.	6.3	N.A.	1.46	1.70	.46	.39	.44	.44
Budd Co.	228.6	322.9	.8	3.3	.33	2.35	.94	1.06	.03	.32
Caterpillar Tractor	585.1	742.3	5.5	6.2	1.16	1.68	.37	.65	.52	.14
Container Corp. of Amer.	289.6	322.2	5.3	6.0	1.41	1.83	.38	.42	.39	.64
Continental Can	1,084.4	1,146.5	3.8	3.5	3.51	3.20	.49	1.06	1.41	.24
Crane Co.	336.2	310.1	1.6	2.1	2.12	4.03	.27	.66	1.23	1.87
Deere & Co.	472.6	542.5	8.5	8.9	5.89	7.02	1.08	2.67	2.23	1.04
Eaton Mfg.	197.8	287.3	4.0	6.0	1.73	3.60	.90	1.20	.76	.74
Endicott Johnson	134.5	146.1	1.4	1.0	1.98	1.50	—	.13[1]	—	1.37[1]
Ford Motor	4,130.3	5,356.9	2.8	8.4	2.12	8.34	2.46	2.76	.97	2.05
General Motors	9,521.9	11,200.0	6.6	7.0	2.22	3.06	1.03	1.05	.47	.51
General Tire & Rubber	469.7	676.9	2.4	3.9	2.06	4.84	1.17	1.46	1.16	1.05
Gillette Co.	193.8	N.A.	14.2	N.A.	2.97	3.34	.73	.78	.90	.92
Granite City Steel	125.0	164.3	7.5	9.8	2.18	3.76	.81	1.13	.75	1.07
Gulf Oil	2,769.3	N.A.	11.8	N.A.	3.29	2.90	.68	.77	.75	.80
International Harvester	941.0	1,193.0	4.5	6.4	2.69	5.10	d.36	2.42	2.06	.98
International Shoe	244.3	283.2	3.0	3.2	2.25	2.71	—	1.16[1]	—	1.55[1]
Johnson & Johnson	260.2	297.7	4.8	5.1	2.38	2.61	.66	.64	.85	.46
Marquette Cement	51.8	55.8	16.8	17.0	3.26	3.55	.22	1.24	1.56	.53
Maytag Co.	105.7	123.0	9.3	10.4	2.91	3.92	.98	1.04	1.06	.85
Minneapolis Honeywell Regulator	328.4	381.3	6.8	7.4	3.23	4.20	.85	.91	1.21	1.23
National Lead	457.6	530.5	9.7	9.8	3.65	4.30	.96	1.25	1.00	1.10
New York Air Brake	33.0	42.9	3.1	5.2	1.42	3.07	.69	.91	.74	.73
Ohio Oil	271.4	N.A.	11.7	N.A.	2.45	2.76	.78	.64	.63	.71
Owens-Illinois Glass	508.4	552.6	6.4	7.3	4.82	5.20	.98	1.52	1.66	1.04
Parke, Davis & Co.	172.5	191.5	16.2	16.1	1.89	2.09	.47	.46	.57	.59
Polaroid Corp.	65.2	89.9	11.0	11.9	1.94	2.78	.39	.38	.77	1.24
Raytheon Co.	376.1	494.2	2.5	2.7	3.08	3.89	.74	.75	.73	1.67
Reynolds Metals	445.5	489.2	8.8	9.1	2.22	2.42	.49	.57	.55	.81
Rohm & Haas	176.6	215.9	8.2	10.7	12.79	20.51	4.58	6.09	5.03	4.82
Ruberoid Co.	118.3	127.3	4.1	5.2	2.56	3.49	.63	.95	1.01	.90
St. Joseph Lead	75.6	86.1	5.2	7.2	1.47	2.31	.76	.58	.35	.63
Smith Kline & French	124.0	134.9	16.7	18.5	1.43	1.72	.42	.47	.48	.36
Socony Mobil Oil	2,885.6	N.A.	5.4	N.A.	3.24	3.35	.93	.66	.95	.81
Standard Oil of Indiana	1,864.0	N.A.	6.3	N.A.	3.29	3.90	1.25	.96	.76	.93
Stauffer Chemical	211.8	229.5	8.5	9.8	1.95	2.41	.51	.75	.60	.55
Sun Oil	724.0	746.3	4.3	5.7	2.73	3.48	.96	.92	.87	.74
Texaco	2,327.9	N.A.	13.3	N.A.	5.24	5.85	1.56	1.22	1.63	1.44
Union Carbide Corp.	1,296.5	1,531.3	9.1	11.2	4.15	5.70	1.38	1.62	1.21	1.48
U. S. Rubber	870.6	976.7	2.5	3.6	3.05	5.30	1.55	1.30	1.09	1.36
Westinghouse Air Brake	206.2	209.4	4.2	5.4	2.10	2.71	.47	.64	.71	.89

N.A.—Not available.
d—Deficit.
1—6 months.

Shoe companies are ordinarily of little interest to investors, and for good reason, but a brief examination of two of them which have just reported will illustrate some useful points. During 1959 **International Shoe** expanded its sales about 16% to $283 millions and **Endicott Johnson** about 9% to $146 millions. Curiously for an industry of this character, 1958 was a poor year, and these results actually marked a recovery rather than any net gain. International was fortunate enough to lift its profit margin from 3.0% to 3.2%, but Endicott, already near the bottom of the totem pole with a margin of only 1.4% for 1958, dropped further to 1.0%, and fell into the very small group of companies which suffered earnings declines last year. In an effort to achieve a more satisfactory profit ratio Endicott, which has been tied to somewhat outmoded properties at Binghamton, N. Y., is establishing a new, modern plant for women's shoes in Mississippi. Over a long period of years shoe companies have shown very little growth, and their stocks can only be described at best as "defensive". And while defensive stocks should probably be emphasized at present, utilities or other consumer industries still look more attractive than the shoe companies.

The **Container Industry** provides examples of stable income issues with a more encouraging background. Within this group, **Owens-Illinois** enjoyed a substantial, 9% gain in sales last year to $553 millions, and this was carried through to an increase in net income from $4.82 to $5.20 a share. Actually, the advance in regular earnings was greater than this, as the 1958 figure includes 70¢ a share capital gains on the sale of the company's former Kaylo division. The 1959 results seem to mark a break-out above an earnings plateau that has prevailed since 1955. Over a longer period, however, earnings growth has been rather steady, and a further dividend increase seem justified in the near future. Despite some recent decline the issue still looks rather generously priced, but it is certainly one of the best defensive holdings available. Owens is fairly well diversified in its own right, manufacturing both glass and paper containers, and it also holds a fairly substantial investment portfolio in other companies.

In another branch of the same industry **Container Corp.** also enjoyed better than average results last year. Sales were up 11% to $322 million dollars and with the aid of some improvement in the profit ratio net was lifted from $1.41 to $1.83 a share. Container's two largest sales categories are shipping containers (about 50%) and retail packaging (30%). Despite intensive competition throughout the packaging field growth prospects for this company lie ahead.

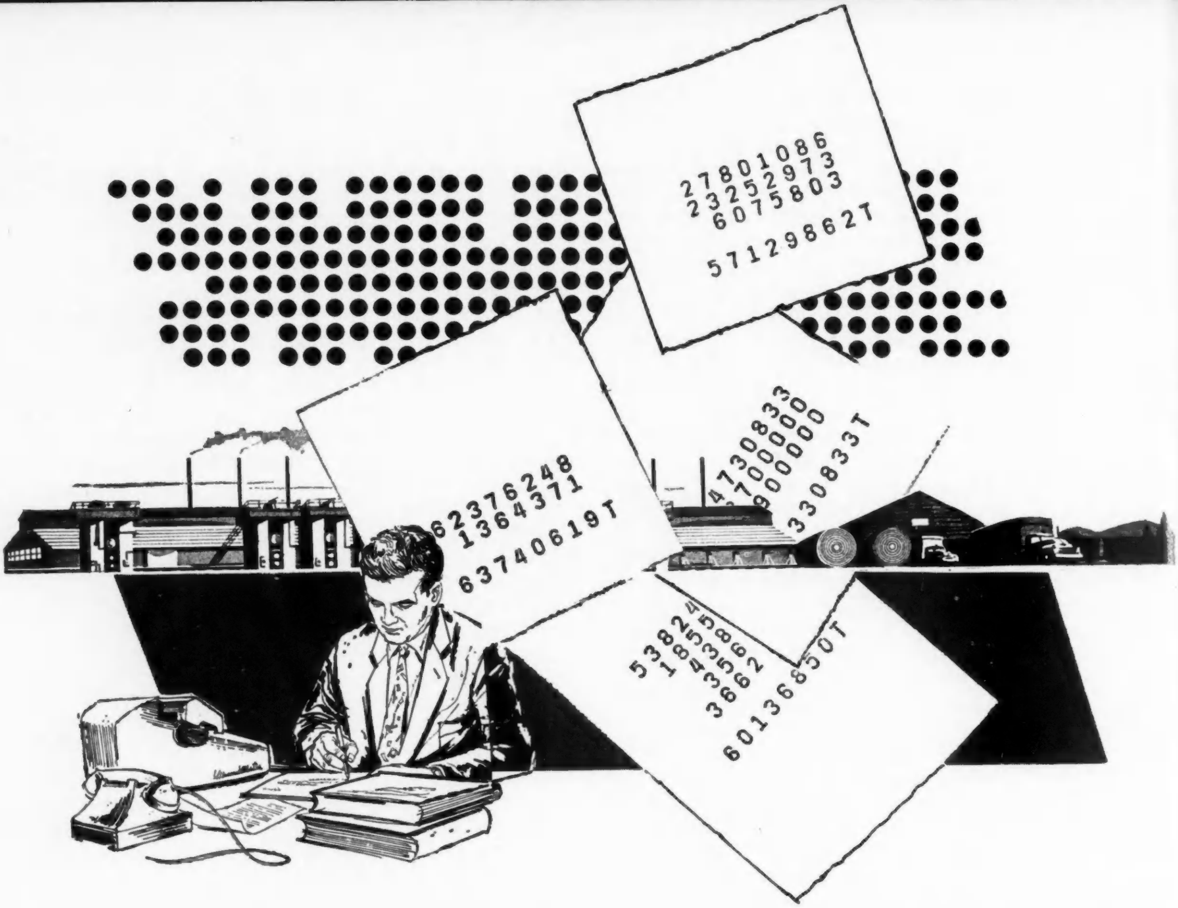
Metal Containers have suffered more difficult problems during the year just ended. American Can was commented upon in the preceding article, and **Continental Can,** which has just reported its earnings, shows a similar pattern of a narrow increase in sales, the benefits of which were more than wiped out by a sharper boost in costs. For Continental this resulted in a drop in earnings from $3.51 to $3.20 a share, the latter figure, of course, still covering the $1.80 current dividend comfortably. The culprit in the picture for both of the can companies was the steel strike, which forced them to undertake expensive expedients in order to maintain normal output. Relieved of this burden in the present year both companies should show substantial recovery. Their stocks are good income producers although this branch of the industry probably has the least impressive growth prospects.

The **Chemical Industry** generally enjoyed encouraging sales gains last year. Volume for **Stauffer Chemical,** for example, was up 9%, for **American Cyanamid** 11%, for **Union Carbide** 18%, and for **Rohm & Haas,** 22%. At the same time profit margins were uniformly broadened, resulting in very satisfactory profits. Union Carbide's net of $5.70 a share and Rohm & Haas' $20.51 both established new records by wide margins. American Cyanamid's performance, however, was slightly disappointing. Its profit ratio showed some inelasticity and the new "record" in earnings, $2.46 a share, achieved this status only by the narrowest gain over the 1957 results. The company's president, Dr. W. G. Malcolm, explained that heavy start-up costs and depreciation on new facilities had to be absorbed during the year. The present year should see further improvement, perhaps of 8% to 10% in chemical sales. The industry is, however, a prey to overcapacity and most of its stocks still cannot be considered particularly attractive at present multiples of earnings.

One individual issue whose performance deserves notice is **American Viscose.** Sales last year snapped back to $240 millions, the best level since 1955 and with that exception since 1951. At the same time the profit margin was doubled, and this lifted net from $1.36 to $2.98 a share. The latter figure, to be sure, is still well below the earnings level which Viscose enjoyed from 1947 to 1952, but may mark the beginning of a recovery from the long cycle of depression that has subsequently ensued. Some improvement in demand for rayon, both for tire cord and textiles, has been experienced, but beyond this the company expanded more broadly, during its "bad" years, into the general chemical field. Its important affiliates, Chemstrand and Ketchikan Pulp, also contribute importantly to its earnings now. For obvious reasons the issue is not suitable for the most conservative investors, but looks attractive for recovery at its present depressed price around 37.

In Conclusion

The number of companies which have so far reported 1959 results, while still a small minority, probably comprise a representative sample of industry in general, and on that assumption it should be fair to generalize about their results. As noted above, all but 15 of the 98 companies enjoyed earnings gains. These derived both from larger sales volume and better profit margins; for the entire group profit margins climbed from 5.9% in 1958 to 6.8% last year. 1959 was, of course, a year of recovery rather than of net progress, and it is normal for profit margins to expand rapidly as a fixed overhead can be spread over a larger output. But the improved profit margins were much less than universal, for only four companies—**Douglas Aircraft, Koppers, Crane** and **Babcock & Wilcox**—suffered actual sales declines, contrast- *(Please turn to page 640)*



EVALUATING CHARACTER OF STOCKS THAT MAKE TODAY'S MARKET

By WARD GATES

- ► Type of stocks — and the direction in which they are going
- ► Representative issues and speculative stocks that have resisted decline — and why . . . special situations
- ► Top-grade issues that have declined in this market —and those that have made new lows
- ► The significance of these trends at this stage of the market

THE stock market's pronounced softness in the opening weeks of the year has focused investors' attention on the various cross currents that characterize the market at all times. While all stocks never move in the same direction at the same time, too few realize that at times the Averages, or other indicators such as the spectacular performance of a few stocks, can mask the true picture of the market.

As a case in point, all through the market's rise from its low point last September to a new high in early January, there was a preponderance of declines over advances. Nevertheless, because of the strong performance of the averages, and the action of a few wonder stocks the overall impression was one of boom. A glance at the figures, of course, will show that was an erroneous impression. Many good grade stocks were down 10 to 15% below their highs, and some entire groups, such as the oils, airlines and aircraft producers were actually making new lows.

At this juncture, with the averages back near the low established in September 1959, it is useful to take a close look at the divergent movements within the market, to see if now, too, there are underlying trends that need to be carefully appraised.

The Outstanding Performers

In Table I we have listed various stocks that have been making new highs during the recent market weakness, or have shown consistent resistance to the decline. The table is divided into two sections, one for good grade stocks, the other for secondary issues. What is most interesting about the list is the almost total absence of any stocks normally classified in the more dynamic industries. It would be encour-

aging if within the group there was an occasional steel company, a sprinkling of capital goods producers, or a few major chemical, oil or paper companies. These, if they were included, might be considered harbingers of a new bullish move.

Instead, the table is replete with special situations, stocks with defensive characteristics, or those that will benefit significantly from the tight money situation. The only exceptions are Pullman Co., Food Machinery & Chemical and Miami Copper, and each of these contains special qualifications for better than average performance at this time.

Pullman, for example, is a cash-rich company with a notable record for sustaining high dividends. In addition the company's principal lines of operation lie in fields that are almost certain to prosper in 1960, unless there is an over-all economic collapse. Railway equipment spending is scheduled to climb substantially this year, and so is trailer truck spending, a fact that should spur operations for Pullman's Trailermobile Division. Within this framework, the 5.8% yield obtainable from the $4.00 annual dividend understandably looks attractive to both individuals and institutional investors.

Miami Copper, is merely following the pattern it has established over many years of showing either exceptionally high earnings accompanied by a high dividend payout or low earnings and equally low dividends. Characteristically, earnings for this marginal producer spurted to $5.50 per share in 1959 from only $1.97 in 1958. The dividend was jumped to $2.50 from only $1.25, but in view of some of the exceptionally high payments the company has made in the past ($6.25 in 1956 and $4.00 in 1957) speculators were attracted by the possibilities of higher present payments. Moreover, they received support from vague, if unsubstantiated merger rumors that have circulated concern-

Table I — Stocks That Have Resisted The Downtrend

A—Good Grade Issues

	Net Earnings Per share 1958	Net Earnings Per share 1959	Dividends Per Share 1959	Dividends Per Share Current Div. (*)	Recent Price	Price Range 1959-60
American Mach. & Fdry	$1.60	$2.60[1]	$ .91	$1.30	56	59⅞-45⅛
Armour & Co.	1.08	2.73	.30[2]	1.20	39	41⅝-23
Assoc. Dry Goods	4.15	4.75[1]	2.15	2.20	59	60½-44
Atlas Powder	3.80	5.15	2.40	2.40	92	96½-68½
Bell & Howell	1.23	1.50	.18[2]	.40	44	47¾-37⅝
Food Mach. & Chem.	2.39	3.00[1]	1.20	1.20	51	56⅜-40
General Foods	4.42	4.75[1]	2.55	2.60	101	107¾-74¼
Gimbel Bros.	3.85	4.75[1]	1.80	2.20	54	55½-36⅝
Heller (Walter E.) & Co.	2.39	2.74	1.25	1.40	40	43¾-27¼
Hershey Chocolate	5.25	6.40[1]	3.40	3.40	80	82¼-66
Marine Midland	1.75	1.91	1.00	1.00[2]	27	29⅝-23½
Middle South Util.	2.61	2.81	.93[3]	.95[3]	26[3]	28½-22[3]
Norwich Pharmacal	1.14	1.35	.72	.80	41	45 -39¼
Pullman	3.52	4.75[1]	4.00	4.00	69	72½-58
Ritter Co.	1.67	1.70[1]	.80	.80	41	45¾-28⅝
Swift & Co.	1.70	3.20	1.60	1.85	47	49½-35
Talcott (James)	2.64	3.16	1.39	1.60	47	50¾-29

*—Based on latest dividend rates.
1—Estimated.
2—Plus stock.
3—Adjusted for 2 for 1 split 2/15/1960.

B—Secondary Issues

American Hardware	$2.44	$2.85[1]	$1.70	$2.00	34	38⅜-31
Bigelow-Sanford	d1.91	1.70	[2]	—	20	21⅝-12½
Emerson Electric	3.49	4.52	1.70[3]	1.80	35	38¼-33
Fairbanks Whitney	d .41	.30[1]	—	—	10	11½- 7
Fifth Avenue Coach	d .66	—	—	—	19	20⅛-13¼
Firth Carpet	d .24	1.00[1]	.05	.20[1]	13	13⅞- 9¼
Hunt Food & Ind.	1.46	1.90[1]	.50[3]	.50[3]	29	31 -18
Interlake Iron	1.26	3.25	1.40	1.40	32	32⅞-25
Miami Copper	1.97	5.50[1]	2.50	3.00[1]	58	61⅞-33⅞
Sweets Co.	2.51	2.70[1]	1.25	1.25	30	31 -25
Udylite Corp.	.57	1.70	1.00	1.00	17	18½-10⅞
United Stockyards	.95	1.30	.70	.70	17	17¾-14⅛

*—Based on latest dividend rates.
d—Deficit.
1—Estimated.
2—3% stock.
3—Plus stock.

Table II — Leading Stocks That Declined After Strength

American Steel Fdry.	$1.75[1]	$2.44[1]	$1.20[1]	$1.60[1]	35[1]	38⅛-34⅛
Cutler-Hammer	3.15	4.50[2]	2.50	2.50	83	96 -59½
Motorola	3.80	7.50[2]	1.50	1.50	150	177 -57½
Owens-Ill. Glass	4.82	5.20	2.50	2.50	95	108 -79½
Penney (J. C.) Co.	5.69	6.35[2]	4.25	4.50	115	131½-98½
Rohm & Haas	13.05	20.51	3.00[3]	4.00	690	770 -481½
Woolworth (F. W.) Co.	3.34	4.00	2.50	2.50	61	67½-53½

*—Based on latest dividend rates.
1—Adjusted for 2 for 1 stock split.
2—Estimated.
3—Plus stock.

ing the company in the last three months.

Food Machinery & Chemical is by far the best of the group, but here too the picture is confusing. The stock's better than average performance can be traced to its poorer than average showing in 1957 and 1958 when earnings growth had slowed considerably. The recovery in earnings in 1959 to $3.00 from only $2.39 the year before has finally brought the stock back into line with its high intrinsic value.

Defensive Issues Predominate

As for the others, some are interesting, but they tell us either nothing about overall trends because of their special nature, or they confirm the bearish trend. **General Foods, Middle South Utilities** and **Hershey Chocolate,** for example, are highly stable companies offering investors the kind of defensive characteristics that would be in demand in troubled times.

General Foods, in particular, has a long record of outstanding, if slow growth, that has more than kept up with the expansion of the economy. If it has not been sensational, it has been a quietly rewarding investment for income conscious investors also seeking modest appreciation and effective protection against sharp declines. Its popularity at this time, therefore, can be viewed as an indication of investor caution.

Signs Of Tight Money

Similarly, the presence in the table of two factoring companies and one bank holding company, bespeak investors' convictions that money will remain tight, holding a check rein on business activity but leading to continued large profits for financial companies. Further confirmation of this fact can be seen in the consistently strong performance of bank stocks in the Over-the-Counter market.

Both **Walter Heller** and **James Talcott** are important business leaders who are bound to benefit from higher interest rates. In addition, however, the huge inventory spending expected to dominate most of the first half of 1960 should lead to increasing business for these companies. **Marine Midland,** a holding company for several upstate New York banks understandably reflects the same picture, aided by its long record of attractive dividend payments.

Special Situations

Among the special situations, both **Swift** and **Armour** are benefitting currently from the huge supplies of beef and hogs being brought to market at prices well below the levels of recent years. Since profit margins of the meat packers depend more on the price of meat on the hoof than the price at the grocery counter, investors are logically looking for substantial earnings improvement this year.

Glamour Stocks

The others in Table I are either glamour stocks, such as **American Machine & Foundry, Ritter Co.** and **Bell & Howell** which have demonstrated their right to the title, or low grade speculative issues such as **Bigelow Sanford, Emerson Electric** and **Udylite** which have been the subject of rumors or have recntly recovered from extreme adversity.

In sum, it is difficult to gain any confidence about either the business or market outlook from the nature of the companies that have outperformed the market in the recent decline.

A Few Lesser Stars

In Table II are several good grade stocks that managed to buck the downward trend for awhile, but were finally overwhelmed by the dominant movement of stock prices. Significantly, however. none of these gives any evidence that its market performance is in any way an omen of better things for stocks generally.

American Steel Foundries, Motorola and **J. C. Penney** *have all reported excellent earnings in recent months, but the principal reason behind their rise has been the anticipation of, and the eventual announcement of stock splits.*

After the news was out and this artificial stimulant was removed, and the stocks receded with the general market, J. C. Penney would ordinarily be expected to act well in a defensive market, but in this case speculative fervor over the split carried the shares too high.

Cutler-Hammer has been outperforming other electrical equipment producers ever since it acquired Airborne Instruments over a year ago. Investors have understandably been impressed with the potentials of a company which combines solid earning power and important participation in the space age. For awhile, therefore, the stock resisted the downtrend, but as doubts began to grow about the business picture and the outlook for capital spending, the stock dropped to more realistic levels.

Woolworth is perhaps the most interesting of this group for several reasons. First, it is the type of stock that should act well in a bad market because of its steady operations, and second, because investors are finally becoming aware of the fact that the company has succeded at long last in revitalizing its operations through new stores and more modern merchandising techniques. The stock ran too fast for awhile and then receded, but there is still some evidence that this old "Blue Chip" is back on the upgrade.

The Pattern of Decline

Table III contains a long list of important companies that have dropped to new low levels since the beginning of the year. However, it does not contain any of the many stocks such as **Alcoa, Standard Oil of New Jersey, Chrysler, Great A & P, American Airlines, Allied Chemical** and **National Gypsum** that sold off long before the turn of the year.

In effect, the stocks in the list are further confirmation of the basic corrections in valuation that has been going on since September 1959, and is still going on. Now that the leaders are declining, causing the averages to recede, the dominant trend is obvious, but it is not quite so recent as many imagine.

Why The Decline In Steels

Probably one of the most confusing market phenomena to many investors has been the action of the steel stocks. All through the strike period they

held at or near their highs only to fall off sharply once the strike was settled. To understand this apparently contrary behavior a little perspective is required.

In the last five years investors have become increasingly more impressed with the success the major steel companies have shown in operating profitably through good times and bad. If the business is still cyclical. it certainly appears that at least the feast or famine aspects of steel has been moderated. Consequently, the shares of the better companies have been upgraded as investors felt they could look forward to some tremendous earnings years without too much concern over the impact of lean years.

Each of the last several years has been painted as the "big" year for steel, and each in turn has proved wanting. In 1956 demand from the auto industry declined sharply and unexpectedly. A good first half 1957 was offset by the recession in the second half; and a good ending to 1958 was counterbalanced by that same recession in the first half. 1959 started off to be the really big year, but then the steel strike cut that short. In sum, for four successive years the promise of steel has not been realized, yet in each of those years speculators were willing to bid the shares higher and higher, looking for the big year, and keeping in mind the inflationary hedge afforded by vast natural resources in raw materials.

1960 may be that big year, but to sophisticated investors it has been overdiscounted in the prices that prevailed during late 1959. Even granting record earnings in 1960, the pattern appeared obvious. A strong first half, followed by a much slower second half and the possibility of a new recession in 1961. Speculators bid for the stocks, and investors were content to make the distribution. When the strike ended the speculators were surprised to find no investment buying interest and they began selling. The result has *(Please turn to page 639)*

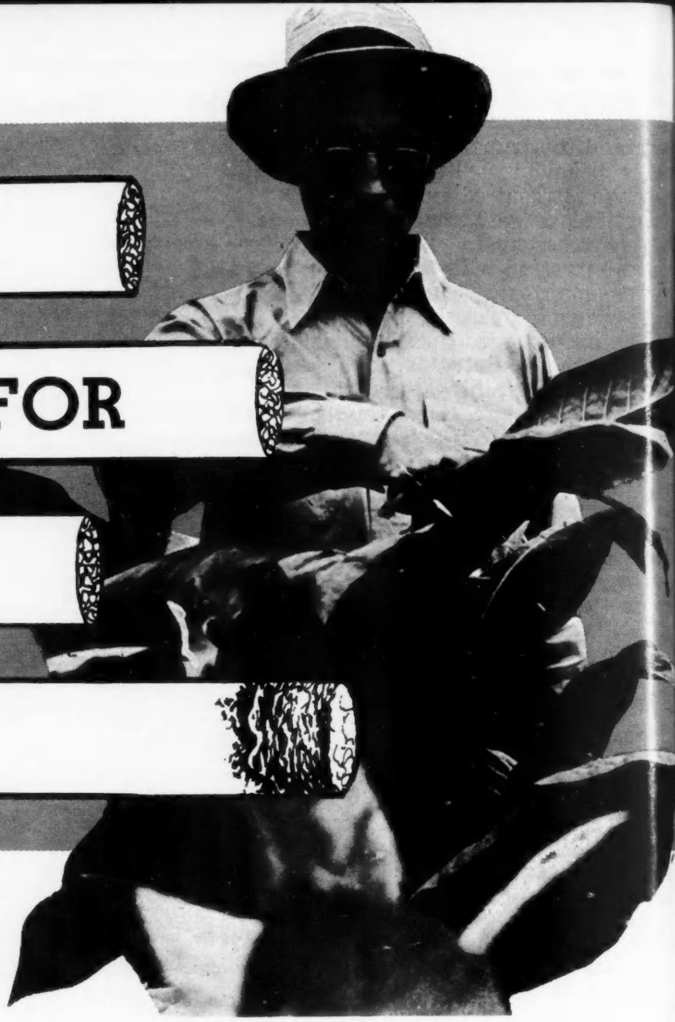
Table III — Good Grade Stocks That Have Hit New Lows

	Net Earnings Per Share 1958	Net Earnings Per Share 1959	Dividends Per Share 1959	Dividends Per Share Current Div. *		Recent Price Range 1959-60
Abbott Laboratories	$3.32	$3.32	$1.90	$1.90	57	84¾-56⅛
Allied Mills	3.86	3.71	2.25	2.25	35	44¾-38⅞
Allied Stores	4.18	5.25[1]	3.00	3.00	53	61¾-52¾
Anaconda	3.16	6.00[1]	2.50	2.50	59	74⅞-58½
Archer Daniels	2.45	3.39	2.00	2.00	36	49½-35½
Armco Steel	3.89	5.19	3.00	3.00	62	80½-61⅛
Bethlehem Steel	2.91	2.44	2.40	2.40	48	59⅛-47¼
Brooklyn Union Gas	1.68	1.67	1.12	1.20	26	28½-25¾
Champion Paper	1.64	2.50[1]	1.20	1.20	49	59⅛-48⅞
Cities Service	3.57	3.60[1]	2.40[2]	2.40	45	64¾-44½
Combustion Engineering	2.65	2.10[1]	1.12	1.12	25	38½-24¾
Crucible Steel	1.13	1.50	.80	.80	24	32¾-23⅜
Curtiss-Wright	3.11	1.65[1]	2.25	1.50	26	40¾-25¾
Eastern Air Lines	2.34	1.75[1]	1.00[2]	1.00	28	46⅛-27⅜
Getty Oil	.79	.60[1]	3	—	16	28¼-16
Glidden Co.	2.64	3.31	2.00	2.00	41	50¼-39½
Goodyear Tire & R.	2.03	2.35	.82[2]	.90	40	49⅜-39¾
Ideal Cement	1.65	1.83	.80	.80	29	39 -28¼
Inland Steel	2.77	2.77	1.53	1.60	41	55 -40¾
Lone Star Cement	2.06	2.25[1]	1.30	1.30	26	37¼-26
Magma Copper	.58	d2.08	—	—	46	78 -44
Mc Crory-Mc Lellan	1.06	1.25[1]	.80	.80	13	19¾-13
Mc Intyre Porcupine	1.01	1.10[1]	1.00	1.00	28	33 -27¾
Minn. & Ontario Paper	1.95	2.29	1.60	1.60	30	38 -28½
Motor Products	1.09	1.50	.85	1.00	22	27⅛-22
Penn-Dixie Cement	3.07	3.50[1]	1.55	1.60	30	39⅛-29¾
Pfizer (Chas.)	1.48	1.50[1]	.80	.80	28	43⅞-27⅝
Phelps Dodge	3.30	3.60	3.00	3.00	51	70½-50½
Pittsburgh Plate Glass	3.24	4.50[1]	2.20[2]	2.20	69	91½-69
Pure Oil	3.35	3.00[1]	1.60	1.60	33	48⅛-33
Republic Steel	3.96	3.43	3.00	3.00	64	81¾-64
Rohr Aircraft	2.87	1.40	1.00	1.00	16	24¾-15⅞
Stewart-Warner	1.60	2.25[1]	1.12	1.20	26	33 -26
Sundstrand Corp.	2.10	2.36	1.00[2]	1.00	23	38⅝-22¼
Thompson Ramo Wool	2.86	3.00[1]	1.40	1.40	48	70¼-48
Union Bag - Comp Paper	2.13	2.57	1.50	1.50	37	51 -36⅝
United Gas Corp.	2.41	2.40[1]	1.50	1.50	31	42⅞-31
U. S. Pipe & Foundry	1.94	3.00[1]	1.20	1.20	24	29 -23½
U. S. Steel	5.13	4.24	3.00	3.00	85	103⅞-83⅞
Vanadium Corp.	1.01	1.60[1]	1.00	1.00	27	42 -26¾
Western Pacific R.R.	8.83	7.50[1]	3.00[2]	3.00	61	81⅞-59¾
Wheeling Steel	3.69	2.53	2.25	3.00	52	66⅞-51½
Worthington Corp.	4.76	3.75[1]	2.50	2.50	56	84½-55½

*—Based on latest div. rate.
d—Deficit.

[1]—Estimated.
[2]—Plus stock.
[3]—1/20 sh. of Sparton Aircraft Co.

TOBACCOS JOCKEYING FOR LEADERSHIP IN 1960



By WALTER UNTERMEYER, Jr.

DESPITE the periodic health scares, the tobacco industry continues to prosper, with cigarette smoking at an all time high. Four hundred and fifty-six billion cigarettes may have been consumed in the domestic market in 1959, an approximate 4.5% gain over the 436 billion cigarettes consumed in 1958. It is estimated that around 58 million Americans smoke of which some 60% are male and 40% female. Male smokers are thought to average around 24 cigarettes a day, female smokers around 19 cigarettes a day. Per capita consumption of cigarettes may have been 2% greater in 1959 than the year previous and 15% more than a decade ago.

The big smoking boom started during World War II. In 1941 per capita consumption of cigarettes, in the age bracket fifteen or over was 2.065. By the end of the war in 1946, Americans over 15 were consuming cigarettes at the rate of 3,230 per year, a trend which has risen every year since with the exception of 1953 and 1954, years which suffered from the initial impact of the cancer scare.

While the Department of Agriculture is predicting further modest year-to-years gains for the cigarette industry, amounting to an 18% increase by 1965 and a 53% increase by 1975, some industry sources are more optimistic. The reasons for anticipating an above-average growth over the next decade stem from the population curve. The cigarette industry suffered in the late '40's and early '50's from the low birth rate in the depression and post-depression years of the '30's. We are now, however, embarking on the years when the big crop of war babies of the early '40's are coming of smoking age. Additionally, the percentage of women smokers is rising at a faster rate than the growth of the population.

Continuing Trend Toward Filters

The year 1959 had its usual series of cancer scares, the successive impact of which diminishes as no new evidence is introduced. In fact, recently the negative evidence is being brought to the fore. For example, a five year study of the British Empire Cancer Campaign involving cancer induced by animal inhalation of cigarette smoke, has come up with striking negative correlations. Furthermore, as recently as December of 1959, the American Medical Association Journal reiterated that there is still insufficient evidence to justify the assumption that smoking is a significant causative agent in the rise of lung cancer. Although there will undoubtedly be further blasts from the Surgeon General and other health agencies, it is our belief that the public will not feel any deep concern until some positive correlations can be established. The cigarette companies rest on their contentions that once a carcinogenic

agent can be identified in tobacco, it can be removed. As one cigarette official expressed it, "if it's in the smoke, it can be filtered."

The year 1959 saw a continuation of the trend to filters now accounting for over 50% of the market. This trend, coupled with the recent popularity of mentholation, has brought a plethora of new brands to the market. Some seers in the industry are predicting an eventual return to five or six leading brands which would swell profit margins since the introduction of new brands is costly. In the brand race, it may be assumed that the companies which have demonstrated the greatest ingenuity over the last ten years should continue to prosper. The tobacco companies are one of the few groups still selling at historically reasonable price-earnings-ratios. The five leading cigarette companies sell at an average price of around 11 times earnings versus an average 10.3 times earnings for the preceding decade and 11 times pre-war earnings. Present average yield is 5.2% versus a ten year average of 6.2%. The above factors, coupled with the fact that the cigarette business has proved to be highly recession-proof in the past, speak in behalf of the tobacco stocks at this juncture of the market.

American Tobacco is the nation's second largest tobacco company with gross sales in excess of $1.1 billion. Its principal brand, king-sized Pall Mall with a domestic output of 63.2 billion units, is the country's second most popular cigarette, just behind nation-leading Camel, whose output in 1959 amounted to around 65.2 billion units. American Tobacco's other brands, in order of popularity, are Lucky Strike (44.5 billion units), dual filter Tareyton (8.2 billion units), king-size Herbert Tareyton (3.0 billion units), and menthol-filtered Riviera (0.20 billion units). Riviera, introduced last August, has a ventilated ring near the tip to cool the smoke before passage through the dual filter.

Sales for the calendar year 1959 of $1.161 million exceeded 1958 sales of $1,105.1 million by 5.5%. With profit margins remaining constant, per share profits rose from $8.55 to $9.23. This year's sales may rise another 5.5% with earnings improving to around $10.25 per share, the higher profit margin due to the savings from the initial use of homogenized tobacco. In conjunction with the 2-for-1 split proposed by the Directors for stockholder approval, the dividend was raised from a former $5.00 annual basis, including a $1.00 extra, to an indicated $5.60 on the new stock, thus making a yield of 5.4% at American Tobacco's recent price of around 105. The stock appears attractive both for income and longer term appreciation.

Liggett & Myers, the nation's third largest manufacturer, produces Chesterfield Straights and Kings (28.3 billion units), L & M Filters (26.0 billion units), Menthol-filter Oasis (2.2 billion units), and recently introduced hi-fi Duke (1.3 billion units). Liggett & Myers has had a relatively poor record over the past ten years with sales down from the 1952 peak year of $603.1 million to last year's $554.9 million which showed no improvement over the year previous. In 1959, the fast 57.1% growth in mentholated Oasis and the addition of Duke just about compensated for the 4% sales drop in Chesterfield and the 0.8% drop in L & M. Dukes are being advertised as the only cigarette with a king-size filter, a device which can give a more satisfying flavor because it filters with extra length rather than extra tightness. Since Chesterfields may continue to skid, improvement in 1960 must be based on consumer acceptance of Duke, a bland cigarette as it is presently manufactured. Even if Duke does take hold, the Company's profit margins may be restricted, at least for the first part of the year, because of introductory expenses. Sales for 1960 are being presently estimated at around $560 million and net per share of around $7.60 versus $7.28 last year and $7.60 the year previous. Earnings are, nevertheless, sufficient to warrant continuation of the present $6.00 quarter dividend including extras. At its recent price of around 84, the yield is 7.1%. While the yield is high, in our opinion the other tobaccos offer superior potentials.

P. Lorillard, revitalized in 1957 by virtue of priceless publicity obtained *(Please turn to page 640)*

Position of Leading Tobacco Companies

	1957 Net Sales (Mil.)	1957 Net Per Share	1958 Net Sales (Mil.)	1958 Net Per Share	1959 Net Sales (Mil.)	1959 Net Per Share	Current Div. *	Price Range 1959-60	Recent Price	Div. Yield
American Snuff	$ 19.0	$4.51	$ N. A.	$1.31[2]	$ N. A.	$1.41[2]	$3.00	63½-54	55	5.4%
American Tobacco	1,098.0	8.28	1,105.1	8.55	1,161.3	9.23	45.00[1]	109⅞-90	104	4.8
Bayuk Cigars	37.8	1.96	40.5	1.53	52.2	2.84	2.00	51½-28½	44	.45
Consolidated Cigar	76.5	2.12	56.8[2]	2.66[2]	64.2[2]	3.12[2]	1.25	30⅜-26	26	4.8
General Cigar	55.5	1.87	41.4[2]	1.46[2]	44.6[2]	2.03[2]	.80	33⅜-22¼	24	3.3
Helme, G. W.	15.6	2.30	N. A.	1.74[2]	N. A.	1.86[2]	1.75	34½-29¾	30	5.8
Liggett & Myers	570.3	6.85	556.0	7.60	554.9	7.28	6.00	98⅞-80⅜	84	7.1
Lorillard (P.)	239.4	1.90	353.2[2]	3.24[2]	373.0[2]	3.19[2]	2.20	48⅝-34	36	6.1
Philip Morris	408.8	4.50	440.8	4.90	460.5	5.01	3.60	65½-54	62	5.8
Reynolds Tobacco	1,053.3	3.08	845.1[2]	2.78[2]	950.2[2]	3.30[2]	2.20	65 -47⅞	57	3.8
U. S. Tobacco	28.2	1.73	29.8	1.83	32.3	1.91	1.35	26⅜-22⅝	24	5.6

*—Based on latest dividend rate.
N.A.—Not available.
1—Vote 4/6/60 on 2 for 1 split. Dividend rate on new stock at $0.57½ Quar.
2—9 months.

FOR PROFIT AND INCOME

Inside The Market

At this writing the following stock groups are performing worse than the market: automobiles, auto parts, chemicals, drugs, oils, steels and tires. These are doing better—which in most cases is to say sagging less—than the market: Building materials, baking, finance companies, food brands, dairy products, electric utilities, department stores, variety stores, liquor, railroad equipment and soft drinks.

Chrysler

Based on past results under favorable conditions, some analysts have heretofore opined that 1960 might be a boom year in earnings of Chrysler Corp. We have preferred to await some evidence pointing that way—and we do not see it. Under the best conditions for Chrysler, when it had a bigger share of the market than now, operating margins were the narrowest of the Big Three. It has a reduced share of the market now. Reduced demand for "regular" cars, due to popularity of compact models, figures to narrow unit margins further. Under depressed 1958 conditions, General Motors and Ford had reduced profits, Chrysler had a large loss. In 1959, Chrysler lost over $5,431,000. The four other U. S. car makers had good profits. Basis for counting on a big Chrysler comeback seems increasingly questionable. The stock is currently at 60 in a 1959-1960 range of 72⅝-50⅝. If you hold the issue and wish to retain a position in the motor industry, you would have less risk and more peace of mind in GM or Ford. The company's poorest-in-the-industry showing for 1959 cannot be laughed off.

Forming Base?

Some stock groups have been under persistent liquidation for a long time and are relatively more depressed than the market. Oils are a notable example. In terms of price-earnings ratios and dividend yields, the adjustment has gone a long way. There appears to be a fair chance for moderate improvement in 1960 earnings, due to normal growth of consumption, plus economies and "tightening up" wherever pos-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Gladding, Mc Bean & Co.	Year Dec. 31	$1.83	$1.07
Pennsylvania R.R.	Year Dec. 31	.55	.27
Burlington Industries	Quar. Jan. 2	.88	.46
Pittsburgh Metallurgical	Quar. Dec. 31	.72	.48
Grumman Aircraft Engineering	Year Dec. 31	2.24	1.13
United-Greenfield Corp.	Year Dec. 31	1.75	.97
Safeway Stores	53 weeks Jan. 2	2.80	2.63
Spiegel, Inc.	Quar. Dec. 31	1.90	1.04
American Distilling Co.	Quar. Dec. 31	1.50	1.18
Colorado Fuel & Iron	Year Dec. 31	1.04	.47

sible. Downside risk in the group is now probably less than average, although the stocks as a whole have not yet "made a line" on the chart. Some, however, have held without further net decline for periods of three months or more, suggesting a balance between liquidation and accumulation. If they hold on further test of the general market—a test in process at this writing—gradual accumulation could be justified. Those with demonstrated support for some time up to this writing are mainly Continental Oil, Phillips Petroleum, Standard Oil (Indiana), Texaco, Royal Dutch, Standard Oil (New Jersey), Shell Transport and Standard Oil (Ohio). As a narrower choice for gradual buying, we would say: Standard Indiana in the domestic group, Royal Dutch among the internationals.

Food Stores

The food store group is another which has been in its own sizable "bear market" for some time and now gives some indications of having been substantially, if not fully, sold out. Earnings are in a moderate long-term growth trend. Price-earnings ratios in many cases have come down from over 20 to less than 15. Probably 1960 risk in these stocks is now relatively small. Food Fair Stores has met support around 30-31 for more than four months. Kroger is much nearer its 1959-1960 high of 34⅜ than the low of 27½ seen last June. Food Fair is currently at 31⅛ in a 1959-1960 range of 43-30⅜. No big or fast appreciation can be promised, but there might be 15% to 30% potentiality over the next one to two years.

Building

Most stocks in the building materials field topped out between the autumn of 1958 and the spring of 1959. For months they have been discounting the moderate shrinkage in housing activity now under way. Representative issues are down 25% or more from their highs, while to date the industrial average is off roughly 10% from its January, 1960, top. It is possible that the building group may decline somewhat further, but the risk has become below average. Full-year earnings in most cases should be either close to or not greatly below 1959's good results. Money rates will ease in anticipation of less active business, as they have already begun to do; and this is on the supporting side for building. At the first whiff of approaching recession, the Government will, as usual, take steps to stimulate building. The favorable long-range picture—centering in rising family formation in coming years and more children per average family — is unchanged. Some of the stocks have shown levelling out or stabilizing tendencies for three months or more. If you want below-average 1960 risk and a reasonable chance at least to double your money during the "golden 1960's", the building group is one logical place to look. Probably you have time to wait and see whether the stocks are fully sold out. They are not going to run away in the present market, but should be among the first to make a basic upward turn. Two goods choices to earmark are Flintkote and National Gypsum.

Fund-Manager Thinking

Compared with the 1959 third quarter, more investment companies bought stocks on balance and fewer sold on balance in the final quarter. The stocks bought most heavily were International Nickel, duPont, Ford Motor, General Motors, General Electric and Royal Dutch. Most favored stock groups were automobiles, banks, chemicals, glass issues and paper. There was moderate buying in building shares, electrical equipment, insurance stocks, rails, rail equipment and tobaccos. Selling predominated in air lines, farm machinery, aluminum and steel.

Coppers

The copper stock group made its top for the 1957-1959 market rise last April, and thus has been under liquidation for some time. Unlike some other relatively depressed groups, however, there is not even tentative evidence so far of levelling out tendencies. There is a mixed situation in the metal. Domestic supplies are tight because of recent strikes, and the producers' price of 33 cents a pound is firm and may remain so for a time; but buyers are covering only indicated needs a relatively short distance ahead. Everybody in the trade knows that copper will be in oversupply later on this year. It does not make much difference, so far as drab market prospects for the stocks are concerned, whether price cutting begins in the second quarter or the third.

Utilities And Money Rates

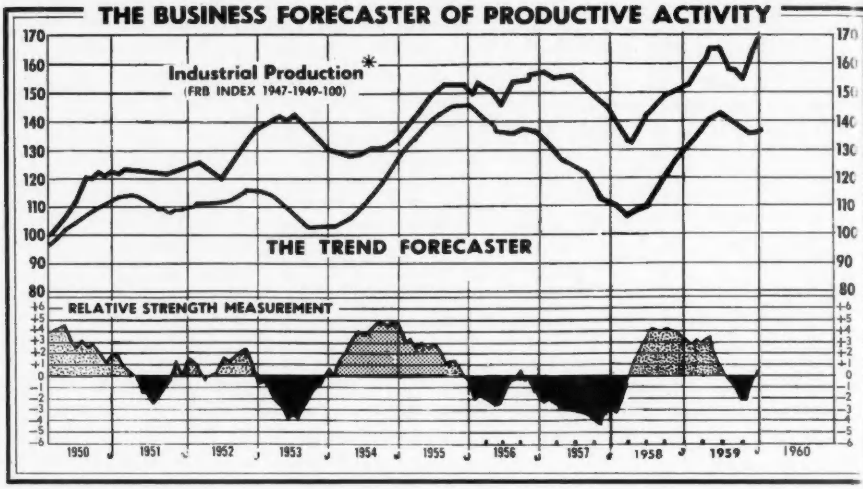
Electric utility stocks which are bought mainly for income, which is true of all the relatively high-yield issues, are largely influenced by money rates, as translated into competitive bond yields. Probably they have put their market lows behind. While some stock-market bulls still refer to the easing in money as "seasonal," all indications suggest that it is more than that. The probability is that by the end of this year or early 1961 bond yields will have zig-zagged down somewhat more from the recent uncommonly high level. This prospect adds to the investment appeal of utility equities which offer current returns in the vicinity of 5% from secure dividends. It virtually eliminates downside risk and provides potential for modest-to-moderate appreciation over the next 12 months or more. Stocks worth considering on this reasoning include Boston Edison, Consolidated Edison, Consumers Power, Duquesne Light, Interstate Power, New England Electric System,

(Please turn to page 646)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Monarch Machine Tool	Year Dec. 31	$ .44	$ .58
Oxford Paper Co.	Year Dec. 31	1.77	2.13
Sinclair Oil Corp.	Year Dec. 31	3.00	3.23
Southern Natural Gas	Year Dec. 31	1.85	2.40
Allied Kid Co.	6 mos. Dec. 31	.82	1.11
Libby, Mc Neill & Libby	6 mos. Dec. 26	.31	.54
Smith-Corona Marchant	6 mos. Dec. 31	.42	.58
United Air Lines	Year Dec. 31	3.66	4.05
Chicago & East. Illinois R.R.	Year Dec. 31	.49	1.96
Spencer Chemical Co.	Quar. Dec. 31	.26	.46

the Business

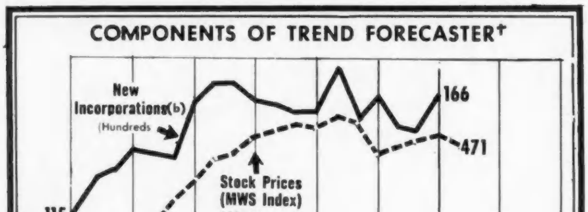


* Revised Index

Business Trend Forecaster

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Early in 1960, the component series entering into the Trend Forecaster continue in mixed condition.

The series affected by the steel strike were still in an upward trend early in the new year. New orders rose in December, and the rise evidently continued into January (a significant part of the January improvement apparently reflected increased shipments of passenger cars to dealers; in the automobile industry, manufacturers' sales are treated as identical to new orders). Similarly, record steel and automobile output in January led to a further rise in seasonally adjusted hours worked in manufacturing industries. Stock prices, on the other hand, fell sharply in January, and continued down in the first half of February.

The Relative Strength Measurement emerged out of negative territory toward the close of 1959, but the improvement has been rather ragged. Thus far, the recovery in this measure resembles its behavior in the months following the 1956 steel strike, when a peak in business was reached about six months after termination of the strike.

Analyst

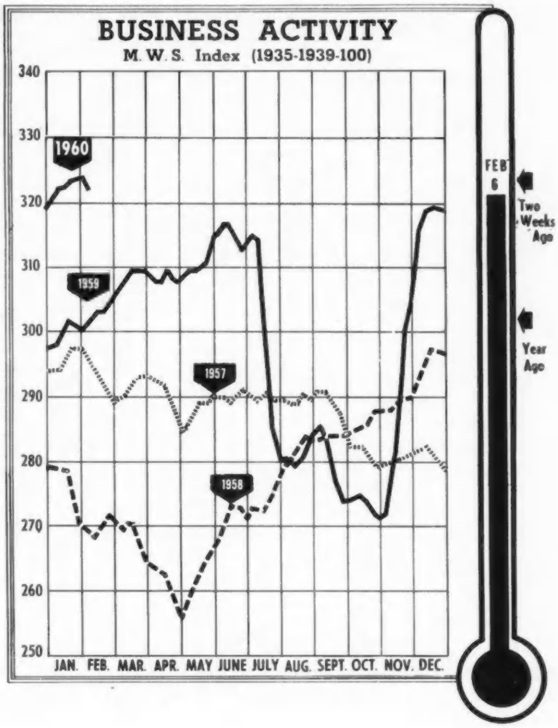
CONCLUSIONS IN BRIEF

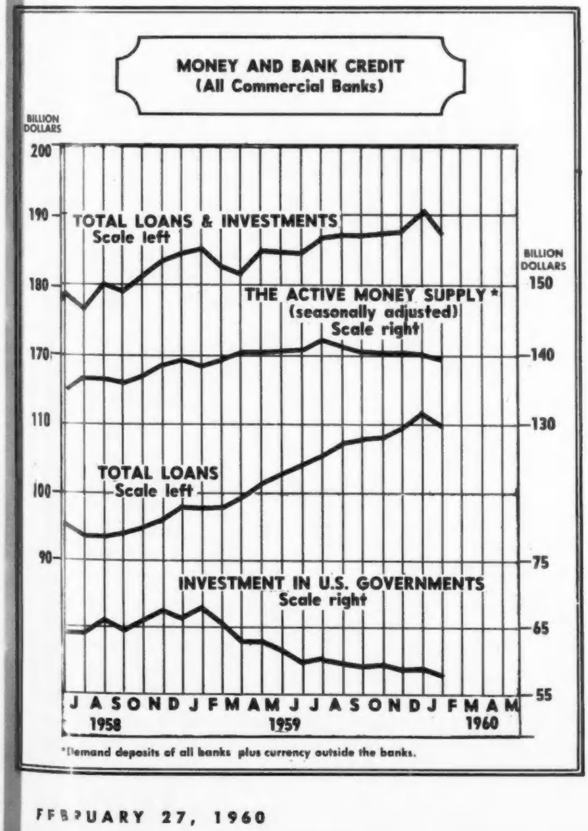
PRODUCTION—Recovery in industrial operating rates continued in January, but at a lesser rate than in December. A further slight advance is probable for February, and perhaps March as well, as rates of output in capital goods industries continue to rise.

TRADE—strengthened moderately in January, as new-car sales gained momentum with increasing supplies. A further rise is probable for the next few months at least. Soft goods outlook looks up for Spring season.

MONEY & CREDIT—short-term rates have continued to ease in past several weeks, and long-term rates have softened; but slowly. Basic money situation is still firm for first half, but new tightening is growing increasingly doubtful at the moment.

COMMODITIES—continue extremely mixed, and with no general trend. Industrial commodities continue firm, with minor increases offsetting minor reductions. No general commodity price trend in first half of 1960 seems to be in the cards.





*Demand deposits of all banks plus currency outside the banks.

THROUGHOUT January, and into mid-February, the general business news retained a definite cautionary tinge. Steel supplies were reported getting into balance rapidly; auto sales, while good, were apparently somewhat below Detroit's superheated projections; the demand for short-term funds was notably less than had been expected, the probabilities of a rise in general bank rates were fading; and the stock market, always a significant maker of business sentiment, was behaving very morosely indeed.

By early in the first quarter, it was clear that inventory change had already climbed to a dramatic rate—perhaps in excess of $10 billion a year. It is doubtful that this rate will be maintained throughout 1960, but it remains a question when the rate of accumulation will fall to a more sustainable level. Examination of the usual guides to inventory policy suggests sharp accumulation continuing for some time; inventory sales ratios in January were evidently not far from the postwar lows set in the early days of the Korean war in 1950. However, the inventory sector is now subject to one major non-quantitative kind of doubt: if fears of inflation are now definitely waning, as they apepar to be doing, then a considerable amount of protective inventory may start draining out of the system. Inventory is, of course held for speculative reasons as well as operating reasons.

Outside of the inventory area, another key question of 1960's markets lies in consumer durables. By

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* † (FRB)	1947-'9-100	Dec.	165	156	151
Durable Goods Mfr.	1947-'9-100	Dec.	174	156	155
Nondurable Goods Mfr.	1947-'9-100	Dec.	157	157	147
Mining	1947-'9-100	Dec.	129	125	129
RETAIL SALES*	$ Billions	Jan.	17.8	17.5	17.5
Durable Goods	$ Billions	Jan.	5.7	5.3	5.8
Nondurable Goods	$ Billions	Jan.	12.2	12.2	11.6
Dep't Store Sales	1947-'9-100	Jan.	147	149	138
MANUFACTURERS'					
New Orders—Total*	$ Billions	Dec.	30.9	29.2	28.4
Durable Goods	$ Billions	Dec.	14.9	13.7	13.7
Nondurable Goods	$ Billions	Dec.	16.0	15.5	14.7
Shipments*	$ Billions	Dec.	30.8	29.0	28.1
Durable Goods	$ Billions	Dec.	15.0	13.5	13.3
Nondurable Goods	$ Billions	Dec.	15.8	15.5	14.2
BUSINESS INVENTORIES, END MO.*	$ Billions	Dec.	89.2	88.4	85.1
Manufacturers'	$ Billions	Dec.	52.3	51.6	49.2
Wholesalers'	$ Billions	Dec.	12.7	12.6	12.0
Retailers'	$ Billions	Dec.	24.2	24.2	24.0
Dept. Store Stocks	1947-'9-100	Dec.	161	160	150
CONSTRUCTION TOTAL	$ Billions	Jan.	3.7	4.1	3.7
Private	$ Billions	Jan.	2.7	3.1	2.6
Residential	$ Billions	Jan.	1.5	1.7	1.5
All Other	$ Billions	Jan.	1.2	1.4	1.1
Housing Starts*—a	Thousands	Dec.	1310	1210	1432
Contract Awards, Residential—b	$ Millions	Dec.	993	1092	981
All Other—b	$ Millions	Dec.	1231	1281	1301
EMPLOYMENT					
Total Civilian	Millions	Jan.	64.0	15.7	62.7
Non-Farm *	Millions	Jan.	53.0	52.9	51.1
Government *	Millions	Jan.	8.3	8.3	8.0
Trade *	Millions	Jan.	11.6	11.5	11.2
Factory *	Millions	Jan.	12.5	12.4	11.9
Hours Worked	Hours	Jan.	40.4	40.5	39.9
Hourly Earnings	Dollars	Jan.	2.29	2.27	2.19
Weekly Earnings	Dollars	Dec.	92.52	91.94	87.38
PERSONAL INCOME*	$ Billions	Dec.	391	387	367
Wages & Salaries	$ Billions	Dec.	264	261	247
Proprietors' Incomes	$ Billions	Dec.	60	59	60
Interest & Dividends	$ Billions	Dec.	37	37	32
Transfer Payments	$ Billions	Dec.	28	28	26
Farm Income	$ Billions	Dec.	17	15	18
CONSUMER PRICES	1947-'9-100	Dec.	125.5	125.6	123.7
Food	1947-'9-100	Dec.	117.8	117.9	118.7
Clothing	1947-'9-100	Dec.	109.2	109.4	107.5
Housing	1947-'9-100	Dec.	130.4	130.4	128.2
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Dec.	111.8	111.8	111.3
Bank Debits*—g	$ Billions	Dec.	95.8	91.5	89.5
Business Loans Outstanding—c	$ Billions	Dec.	31.4	31.0	31.4
Instalment Credit Extended*	$ Billions	Dec.	4.0	4.1	3.8
Instalment Credit Repaid*	$ Billions	Dec.	3.8	3.7	3.4
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Dec.	7.6	5.9	6.2
Budget Expenditures	$ Billions	Dec.	6.8	6.6	7.1
Defense Expenditures	$ Billions	Dec.	4.2	3.7	4.2
Surplus (Def) cum from 7/1	$ Billions	Dec.	(5.6)	(6.4)	(11.0)

PRESENT POSITION AND OUTLOOK

all the available figures, the regular cycle in consumer borrowing on installment credit may be nearing a peak: current high rates of debt repayment are a definite drag on consumer purchases and may account for a certain slackness in the automobile market, and in the markets for appliances and homefurnishings. A typical cyclical burst in the sales of these big-ticket times has not materialized since the end of the steel strike, and has led to some doubts about the outlook for Spring.

Finally, and most importantly of all, the rate of ordering in capital goods industries has certainly not caught fire since the end of the steel strike. Will it catch fire? Possibly not in the way it caught fire in 1955; yet the indicated cash flow in the corporate sector is such as to suggest substantial additions to plant and equipment by mid-year, and continuing throughout the year.

Checking the business figures in these three key areas—inventories, consumer durables and capital goods—we find inventories and capital goods pointing to substantial levels of demand in the second quarter, while consumer durables may lag somewhat. All this adds up to a mixed business outlook in coming months. And it is being subjected to intense pressure by the sudden emergence of noninflationary expectations on the part of businessmen and consumers alike. This is what the stock market is saying, and this is what the statistics on the demand for funds are saying. The inflationary psychology of the postwar years is drawing to a close, at a time when real business demands appear to have lost a good deal of their forward momentum. * * *

AUTOMOBILES—this is a good time to stop and take a long look at the figures. In January, new-car sales of domestic manufacture evidently exceeded 450,000, or about the highest January on record. Including foreign sales, the total of which is not yet known, the sales rate was evidently about 6.8 million, not bad by any count. But inventories of domestic makes alone were apparently approaching 800,000 by

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1959 Quarter III	1959 Quarter II	1959 Quarter I	1958 Quarter III
GROSS NATIONAL PRODUCT	478.6	484.5	470.2	444.0
Personal Consumption	313.3	311.2	303.9	294.4
Private Domestic Invest.	67.0	77.5	69.8	54.2
Net Exports	0.0	—1.8	–0.9	1.6
Government Purchases	98.4	97.7	97.4	93.8
Federal	53.6	53.9	53.8	53.6
State & Local	44.8	43.8	43.8	40.8
PERSONAL INCOME	381.0	381.1	371.8	336.4
Tax & Nontax Payments	45.8	45.8	44.4	42.9
Disposable Income	335.2	335.3	327.4	320.4
Consumption Expenditures	313.3	311.2	303.9	294.4
Personal Saving—d	21.9	24.1	23.5	26.0
CORPORATE PRE-TAX PROFITS		52.6	46.5	38.3
Corporate Taxes		25.6	22.6	18.8
Corporate Net Profit		27.0	23.8	19.5
Dividend Payments		13.0	12.8	12.6
Retained Earnings		14.0	11.0	6.9
PLANT & EQUIPMENT OUTLAYS	34.3	32.5	30.6	29.6

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Feb. 6	322.6	324.9	324.3
MWS Index—per capita*	1935-'9-100	Feb. 6	234.8	236.5	236.2
Steel Production	% of Capacity	Feb. 13	94.4	94.2	83.7
Auto and Truck Production	Thousands	Feb. 13	195	201	150
Paperboard Production	Thousand Tons	Feb. 6	321	326	298
Paperboard New Orders	Thousand Tons	Feb. 6	352	326	345
Electric Power Output*	1947-'49-100	Feb. 6	264.9	266.6	249.8
Freight Carloadings	Thousand Cars	Feb. 6	588	602	565
Engineerings Constr. Awards	$ Millions	Feb. 11	375	377	284
Department Store Sales	1947-'9-100	Feb. 6	111	111	108
Demand Deposits—c	$ Billions	Feb. 3	60.6	62.1	61.7
Business Failures—s	Number	Feb. 4	318	281	271

PRESENT POSITION AND OUTLOOK

the end of the month, and an additional 200,000 might have been added if February production schedules had not been altered. As it is, February output has been curtailed to about 10% below original expectations, and the addition to inventory may not exceed 100,000. At the same time, used-car prices, which are a barometer of strength in the new car market, have faltered in the early weeks of the new year, suggesting that the wide assortment of compacts and foreign cars now available have cut into the sales of used cars. All in all, the figures still point to a sales rate of domestic new cars, not too far from the 7,000,000 forecast by the industry, but few would say that this figure is any longer a conservative estimate.

* * *

PERSONAL SAVING—in the first quarter, it has evidently climbed materially. While retail sales are running strongly, income has risen even more rapidly, and the saving gap has apparently widened. However, with consumer debt somewhat top-heavy, the spending rate may not show much improvement in the second quarter.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Revised index. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1959-'60 High	1959-'60 Low	1959 Feb. 5	1960 Feb. 12
Composite Average	492.4	436.9	454.4	452.1
4 Agricultural Implements	492.4	356.2	398.4	402.7
3 Air Cond. ('53 Cl.—100)	137.2	110.5	118.6	121.1
9 Aircraft ('27 Cl.—100)	1375.1	1019.1	1060.8	1049.8
7 Airlines ('27 Cl.—100)	1429.4	901.7	901.7	945.7
4 Aluminum ('53 Cl.—100)	594.5	392.0	474.4	469.2
5 Amusements	252.6	200.5	216.1	223.0
5 Automobile Accessosies	541.9	413.4	487.7	498.5
5 Automobiles	156.8	93.7	138.5	135.4
3 Baking ('26 Cl.—100)	41.3	28.5	38.3	37.5
4 Business Machines	1395.5	1173.8	1198.7	1198.7
6 Chemicals	835.5	692.9	721.4	705.4
4 Coal Mining	37.8	28.1	33.9	32.8
4 Communications	229.8	164.6	216.0	213.7
9 Construction	178.9	155.6	167.5	164.1
5 Container	1142.6	970.7	981.2	970.7L
5 Copper Mining	344.6	280.7	314.8	314.8
2 Dairy Products	163.1	138.8	153.0	149.9
5 Department Stores	143.8	119.1	138.0	135.2
5 Drugs-Eth. ('53 C.—100)	475.4	379.5	413.1	404.3
5 Elect. Eqp. ('53 Cl.—100)	369.9	268.8	336.6	336.6
3 Finance Companies	769.7	654.6	675.6	662.2
5 Food Brands	470.0	406.3	419.3	414.9
3 Food Stores	279.6	244.4	250.2	255.3

(Nov. 14, 1936 Cl.—100)	High	Low	Feb. 5	Feb. 12
High Priced Stocks	306.7	268.4	282.8	280.1
Low Priced Stocks	665.9	585.4	620.9	610.2
5 Gold Mining	1013.5	853.0	973.0	1003.4
4 Investment Trusts	190.6	162.1	162.1	162.1
3 Liquor ('27 Cl.—100)	1624.8	1369.9	1369.0	1369.0
7 Machinery	563.2	452.4	497.1	486.7
3 Mail Order	467.5	253.1	409.7	405.1
4 Meat Packing	277.1	204.4	264.9	264.9
4 Mtl. Fabr. ('53 Cl.—100)	211.2	181.3	196.6	194.6
9 Metals, Miscellaneous	409.6	343.8	361.8	358.1
4 Paper	1310.5	1084.1	1109.6	1084.1L
16 Petroleum	885.5	684.2	691.7	684.2L
16 Public Utilities	365.4	334.9	345.1	345.1
6 Railroad Equipment	104.1	86.9	94.8	97.8
18 Railroads	78.2	66.0	66.1	66.1
3 Soft Drinks	726.6	599.8	704.8	704.8
11 Steel & Iron	476.4	392.5	423.1	418.4
4 Sugar	144.7	85.2	85.2	86.1
2 Sulphur	863.3	580.6	600.2	606.4
11 TV & Electron. ('27—100)	111.3	65.6	97.7	96.6
5 Textiles	259.6	176.6	212.0	207.6
3 Tires & Rubber	281.8	216.1	230.1	224.9
5 Tobacco	194.9	172.9	184.3	182.5
3 Variety Stores	371.2	331.4	360.3	360.3
14 Unclassif'd ('49 Cl.—100)	295.1	239.8	268.8	266.1

L—New Low for 1959-1960.

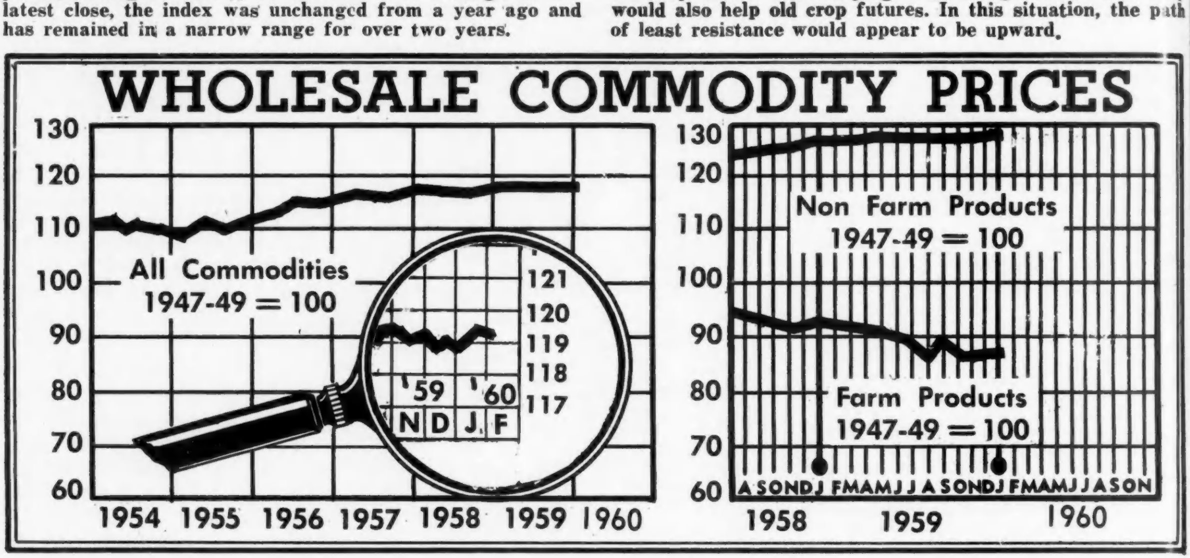
Trend of Commodities

SPOT MARKETS — Sensitive commodities followed divergent courses in the two weeks ending February 11. Raw foods were higher while industrial materials gave some ground. The BLS daily index of 22 leading commodities lost 0.2% during the period as the result of lower prices for copper scrap, steel scrap, hides, rubber and wool tops. Among industrial materials, only tin was higher.

Among the broad rank and file of commodities, farm products were lower in the two week period, while other commodities were little changed. The BLS comprehensive weekly index lost 0.3% as the result of the drop in farm prices, closing at 119.2% of the 1947-1949 average. At its latest close, the index was unchanged from a year ago and has remained in a narrow range for over two years.

FUTURES MARKETS — Futures markets were preponderantly lower in the two weeks ending February 12, although quite a few commodities were little worse than mixed. Included in the latter category were wheat, corn, oats, soybeans, copper and zinc. Lower quotations were registered for rye, lard, cotton, wool, rubber and lead, while only hides advanced. The Dow-Jones Commodity Futures Index lost 0.63 points to close at 146.00.

The nearby wheat option was slightly lower in the period under review, while new crop futures advanced. There are increasing signs that a tight situation in "free" supplies of old crop wheat is developing and damage to the new crop would also help old crop futures. In this situation, the path of least resistance would appear to be upward.



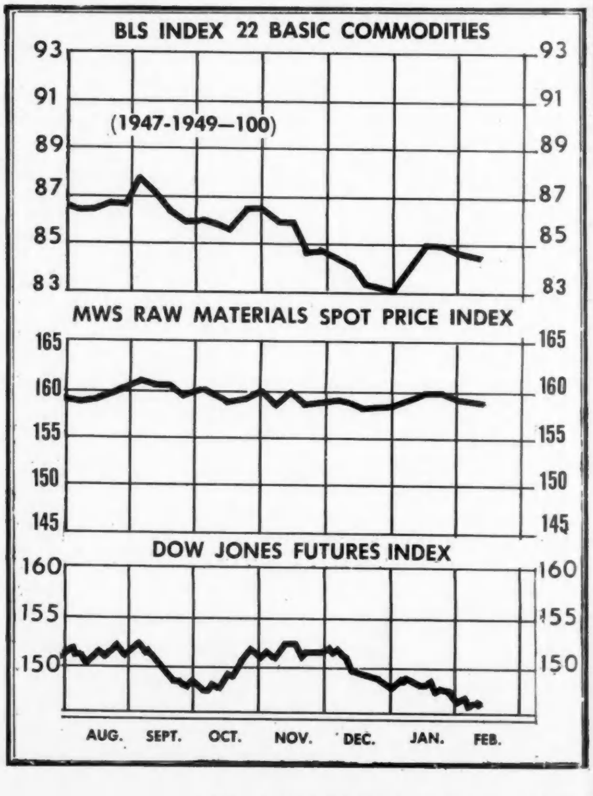
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Feb. 9	119.2	119.5	119.2	60.2
Farm Products	Feb. 9	87.0	88.4	87.0	51.0
Non-Farm Products	Feb. 9	128.6	128.6	128.6	67.0
22 Sensitive Commodities	Feb. 11	84.6	84.8	84.4	53.0
9 Foods	Feb. 11	73.0	71.9	78.4	46.5
13 Raw Ind'l. Materials	Feb. 11	93.5	94.9	88.7	58.3
5 Metals	Feb. 11	100.4	101.7	96.6	54.6
4 Textiles	Feb. 11	79.4	80.1	77.0	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1959	1958	1953	1951	1941
High of Year	161.4	154.1	162.2	215.4	85.7
Low of Year	152.1	146.5	147.9	176.4	74.3
Close of Year	158.3	152.1	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1959	1958	1953	1951	1941
High of Year	152.7	159.0	166.8	215.4	84.6
Low of Year	144.2	147.2	153.8	174.8	55.5
Close of Year	147.8	147.6	166.5	189.4	84.1



Canada and U.S. Joined By Interest In Natural Gas

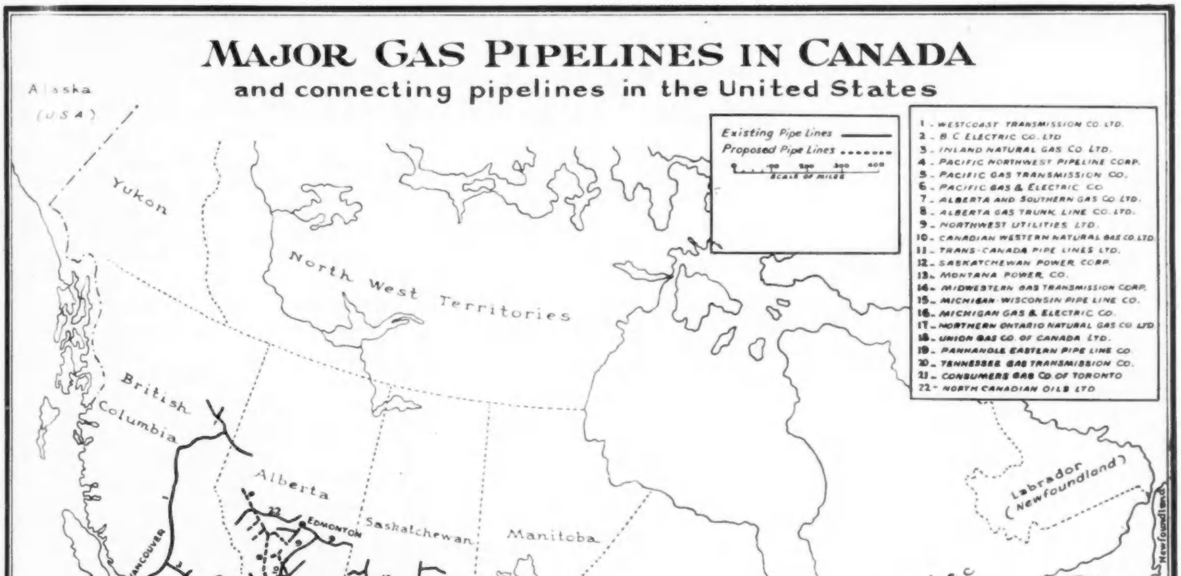
(Continued from page 619)

and leased to Trans-Canada) and to expand the system to meet domestic requirements. Consideration of the plan to export gas at Niagara Falls will probably be deferred until later this year. Purchase and sale of gas by Trans-Canada is now made under contract at negotiated prices and increases in the cost of gas in the field must be passed on to customers through modification of contracts or absorbed. As increased quantities are urgently needed by the distributors there does not seem to be too much doubt that the contracts can be reopened. The role of the NEB in this sort of rate matter is, of course, yet to be determined.

The shares of Trans-Canada were subject to speculative excesses shortly after issuance and rose from a nominal price of 10 ($150 per unit consisting of $100 debenture and five shares of common stock) to 39 early in 1958. The low that year was 20. Last year the issue ranged from 31 to 22½ and currently is at the low for this year of 23. In making earnings estimates, a number of assumptions must be made as to cost of gas, development of the domestic market, cost of financing a $230 million construction program and the possible impact of regulation. On an optimistic basis, 1963 earnings could rise to $1.25, while under less perfect conditions (but including 50¢ from export sales), a level of 80¢ to $1.00 seems a reasonable expectation. In either event the price sems to fully value earnings four years hence. Nonetheless, the approval of export could result in an even higher multiple being placed on future earnings, based on the assumption that the initial allocation is a forerunner of larger deliveries to the United States.

Westcoast Transmission Co.

Westcoast Transmission Co Ltd. is the only major pipeline now selling a sizeable quantity of gas to the United States. The operation has been plagued with a series of peculiar problems, however, which have prevented realization of the potential envisioned at the time of construction and could cause further delays in development of profits. Primary among the company's difficulties is the insufficiency of deliverable gas reserves. Thus far the company has not met its requirement to deliver 300 million cubic feet per day to El Paso Natural Gas. In this connection it must be mentioned, however, that growth of the market in British Columbia has greatly exceeded expectations and this market is being supplied. The second area of uncertainty had been the charge that the company's export price is too low and is unfair to Canadian consumers. Agreement by El Paso to pay a higher, but undetermined,



Courtesy of Bank of Nova Scotia.

price for additional gas has eased this criticism.

In order to enlarge deliveries to the United States as well as serve the western Canadian market, Westcoast acquired additional reserves in Alberta and after agreeing to a compromise with Alberta and Southern, was authorized by the Alberta Conservation Commission to sell 150,000 mcf/day to El Paso. The application and the question of price are now pending before the NEB and the FFC. Because of its more complicated nature and the connection with the Alberta & Southern application, approval while probable, may be delayed. Of greater importance to Westcoast is the possible development of a major new reserve in northeastern British Columbia. While only test wells have been completed at present it is hoped that the ultimate recoverable gas in the area may exceed one trillion cubic feet. Should this be the case Westcoast's reserve position would be measurably improved. Development and sale of this gas, however will require three to five years.

The market price record of Westcoast has been the most volatile of the Canadian pipelines; units of $100 debentures and three shares of common stock were offered in 1957 at $115, but were soon at premiums up to $157. In 1958 the units rose to $235. Detached, the common stock record is as follows: 1957 high 48½ — low 24; 1958 high 27, low 19; 1959 high 22—low 14 and thus far in 1960 the shares have remained close to the 15-16 range. Because of the many variables and uncertain financing needs of Westcoast, no meaningful earnings projections are possible. Estimates made several years ago of $1.50 — $1.75 by 1962 no longer appear attainable within the foreseeable future. As in the case of Trans-Canada, approval of export may set off another speculative flurry, if the terms of the NEB order are favorable.

Alberta and Southern Gas Co.

Alberta and Southern Gas Co. Ltd. is being sponsored by Pacific Gas and Electric Co. to provide an alternate Canadian supply to the northern California market. An ambitious project, it is expected to cost $330 million and provide 460 million cubic feet daily rising to 800 million within several years. The line to be built in Canada will be a joint facility with Westcoast and will also connect with Canadian-Montana Pipe Line. Financing will be undertaken both in Canada and the United States. As noted above the Alberta Conservation Commission has finally approved the full export quantity requested. The NEB is expected to approve this project and may agree to the export of the entire amount requested. Hearings are currently being held before the FPC. Because of procedural problems, construction is not likely to begin before late this year and deliveries could start about a year thereafter. If there are delays in obtaining the necessary authorizations the operation of the line will similarly be deferred.

No attempt at estimating earnings for this company is being made because of the length of time before operations begin. Prior to the commencement of operations there may well be indications from the regulatory authorities on rate matters and this, in turn, could alter financing plans. At this juncture it may be stated that Alberta and Southern appears to be a well conceived line with adequate reserves and a growing market.

Conclusion

In summary, the export of Canadian Gas is imminent and the price history of the pipeline stocks suggests that recognition of the event will occur in the market. Such a rise, however, will reflect a higher multiple for earnings that are still several years in the future, and which make rather optimistic assumptions as to growth and regulation. Over the longer term Trans-Canada and Alberta Gas Trunk Line appear to have good prospects for devloping increasing earnings and Alberta and Southern, depending on its price at the time of financing may have appeal for investors. Westcoast Transmission remains speculative, but has an interesting potential. END

Evaluating Character Of Stocks That Make Today's Market

(Continued from page 627)

been a new low for **U.S. Steel** and most others within a few short months of the time they made new highs.

The Significance of the Trend

Of all the stocks in Table III there are only a very few that are down for specific reasons. In most instances earnings were good in 1959 and may be even better, at least in the first half of 1960. Hence a rundown of all the companies would serve little purpose. **Goodyear,** for example is in better shape than ever, and tire prices have just been raised, in the bargain. The company obtains over half of its volume from its tire lines. Yet the stock is at a 1959-1960 low. Penn-Dixie, as in the case of other cement companies, enjoyed a banner year in 1959. Yet despite a good outlook for 1960, this stock is also at its low. Obviously, therefore, there is something else at work—a process of gradual revaluation of security prices in the light of realities rather than speculative fervor.

First, although earnings and dividends are at high rates, it has finally dawned on investors that the rate of growth has slowed substantially in recent years. In fact, except for 1959, the highest earnings reported by all corporations dates back to 1950. Dividends are at a record high, but when measured on a yield basis the returns available are well below those obtainable from high-grade corporate and government bonds. *All of this might be ignored, as it has been in the past, if inflation and easy money were still the dominant fears in investors minds. But they are not.*

The sheer statistics, as well as other evidence has all but banished inflation as a rationale for stock prices from the minds of seasoned investors. Why? Because in the last ten years stock prices have risen 300% on the average while consumer prices have climbed a bare 22% and industrial commodities slightly more at 25%. If this rise in the price level was inflation, certainly stock prices have more than discounted it.

Furthermore, investors have been burned trying to hedge against inflation in the classical way. Raw materials companies, especially the oils, coppers, lead and zinc producers have been among the poorest market performers in the last few years.

Money Trends

Without any concrete evidence of inflation, the hedging mentality has only the threat of easy money and eventual inflation to fall back on, and this too is weakening. Readers of this magazine have been kept expertly informed on the dominant money trends. They know, that despite persistent political pressure the administration has refused to give an inch except for the spending it viewed as necessary for national defense. The Federal Reserve, headed by William McChesney Martin has been consistently fighting the pressures for easier credit and has so far been successful in limiting expansion in the money supply.

But what has finally convinced investment managers is the fact that even if politics should lean to some tampering with the money system, the loss of gold we have suffered in the last few years will act as an effective check against the indiscriminate raising of bank's lending reserves. Money may ease temporarily as business loans decline, but the longer term outlook is for a prolonged period of generally high money rates in line with prevailing rates around the world. We cannot have it otherwise, or we will lose our gold reserves and be forced into the disastrous step of devaluation.

Impact On Companies

None of the above presupposes a recession or any general interference with the high level of operation in the economy. Even if

business remains good all through 1960 and well into 1961 there is ample evidence that the current revaluation of stock prices is fully justified. Without the fear of runaway inflation only earnings and dividend prospects count in the appraisal of companies, and these have been too richly valued. Nor has any consideration been given to any possible decline in business where leverage would work against total earnings under a readjustment of activities closer to the break-even point.

What the ultimate correction must be is impossible to determine, but it should be pointed out that although the averages are down only 10% from their highs many representative stocks are 20 and 30% below their highs. As such they are less vulnerable at the moment, provided the business picture remains good. If the enthusiasm that greeted the new year should dampen, however; if autos fail to sell as expected; if the current signs that appliances sales are weakening should persist; if capital spending doesn't hurry along in its expected upturn, and if new orders and backlogs don't begin soon to climb faster than they have been so far, then the current set-back may prove to have been just the first leg of a truly major decline in stock prices. END

What 1959 Annual Earnings Reports Reveal

(Continued from page 623)

ing with the 15 that reported lower earnings, but **Babcock** *and* **Crane** *both reported higher earnings on lower sales*—a hallmark of good management! However, it is unlikely that continued lower sales can be effectively offset.

More importantly, profit margins will be under heavier pressure in the current year, as operations press against capacity and considerable price resistance simultaneously restricts the full recovery of rising costs. Such factors suggest that stock prices have, at least until recently, emphasized the encouraging aspects in the current year's outlook to the disregard of some that are unfavorable. END

Tobaccos Jockeying For Leadership

(Continued from page 629)

through an outstanding popular magazine article, is now beginning to suffer from the remorseless competition of the brand war. Even though it was inevitable that sales growth would eventually taper off, Lorillard has done a good merchandising job in keeping its Kent (384 billion output) in the vanguard of filter cigarettes. Kent's annual gain of 5.5%, and the 84.6% gain in menthol-filter Newports (4.8 billion units) more than compensated for the 22.8% sales drop in the three types of Old Golds. Recently introduced menthol-filter Spring seems to be going well and may help to boost 1960 volume from estimated 1959 sales of a little over $500 million to around $520 million. Estimated per share earnings may reach $4.50 versus an estimated $4.30 for 1959 and $4.01 for 1958. At its recent price of around $37, Lorillard is selling at less than 9 times estimated 1960 earnings versus an average estimated 11 to 12 times multiplier for the four other major companies. The reason for this lower evaluation is Lorillard's dependency on one major brand which gives evidence of running out of some of its steam. Lorillard, recently $37, does have speculative possibilities based on its ability to retain its share of the market and because of the lush 6.5% yield based on an indicated $2.20 annual payout.

Philip Morris is the fifth largest of the five majors, but its sales growth over the past five years has been greater than any but Lorillard which was something of a phenomenon. Philip Morris' brands consist of Philip Morris Regular and Kings (10.4 billion units), Filter Parliaments (9.3 billion units), Benson & Hedges Filter (0.60 billion units), and two menthol-filter brands, Alpine (1.3 billion units) and Spuds (0.30 billion units). Alpine, introduced last July, has a hi-fi filter and air-cooled porous paper. Although it is too early to insure brand success, Alpine seems to be going well.

Philip Morris is the first major companies to have diversified. In 1957, the Milprint Company, manufacturer of flexible packaging, was acquired. The Company is presently negotiating with the A.S.R. Products, manufacturers principally of razors and blades, on an exchange basis of 4⅓ shares of A.S.R. Products for each share of Philip Morris. Since both companies utilize the same channel of distribution, the marriage might be a happy one.

With Parliament's 1959 sales gain of 36.8% more than compensating for the 14.4% sales slippage of its Philip Morris brands, the company's sales rose to $460.5 million from $440.8 million with per share earnings rising from $4.90 to $5.01. Philip Morris' meager profit margins, lowest in the industry, stem from a number of reasons. First, Philip Morris' unconsolidated foreign earnings amounting in 1959 to around $0.30 per share are unconsolidated; second, around 15% of sales are thought to come from Milprint where margins are lower than in the cigarette business; and third, introductory costs on new brands have been high. Management, however, is capable, aggressive, and aware of the problem and should eventually provide a solution. For 1960, we are estimating a sales increase of around 5% to $480 million and per share earnings between $5.25 and $5.50.

Reynolds Tobacco has done an outstanding job in maintaining top positions for its brands in each of the various categories. Camel is the leading straight and also the nation's top brand (6.2 billion output), Winston, the leading filter (46.3 billion) and Salem (28.2 billion), the leading menthol filter. Camel's continuing popularity in a period when other straights have slipped is testimony to Reynold's merchandising talent, which is based on a philosophy of selling a stronger, better tasting cigarette rather than health, as per its slogan, "Winston tastes good like a cigarette should." Sales for 1959 will show an approximate gain of 12% over 1958 versus an industry gain of but 4.5%. Reynolds' profit margins of around 16% are considerably higher than the industry average of around 13%. Per share earnings for Reynolds in 1959 may be around $4.50 versus last year's $3.80. For 1960, relative gains may be considerably less, our present estimates being around $4.75. At its present price of 58, Reynolds sells around 12 times such earnings which is a reasonable price-earnings ratio for a company with so excellent a record.

The Cigar Companies

Despite the fact that domestic consumption of cigars over the past ten years has increased only 10% versus an 18% population growth, major cigar companies have, nevertheless, benefited by the changing character of the business which has concentrated the manufacturing in the hands of a few companies. Over a twenty year period, the number of plants producing less than half a million cigars have declined by around 85% while those producin excess of 40 million units have increased by around 45% to the extent that about two thirds of the annual dollar volume of cigars are accounted for by the six biggest producers.

Perhaps the prime cause for the metamorphosis in the cigar industry was the development of cigar making machinery obtainable on a royalty basis from American Machine & Foundry followed by the relatively recent development of reconstituted tobacco, a patented process available to the industry at large under a licensing agreement from General Cigar. Reconstituted tobacco, referred to in the trade as blender binder, is a process for pulverizing the entire leaf and then rolling it into strips. Not only does this process permit better utilization of the tobacco, but lends itself to further automation through facilitating the machine feeding of a thin, standard-sized sheet as opposed to the irregular strips of cured, natural leaf. The resultant labor savings have enabled cigar companies to improve profit margins, but perhaps of even broader significance have been the capital requirements for installation of modern manufacturing methods which caused the capitulation of many of the smaller producers.

Additionally, the larger companies are in a financial position to embark on aggressive merchandising programs including national advertising, thus further widening the gap between the majors and minors.

Although 1959 was a banner year for the major cigar manufacturers, industry sales in the third and fourth quarters of 1959 were disappointing because of the imposition of a 15% New York State tax on July 1st of last year, a seemingly unfair levy which the industry is fighting vigorously. The general 1960 outlook for the cigar business is good with most companies anticipating a 5%-6% increase in sales. The leading cigar manufacturers are Bayuk Cigars, Consolidated Cigar and General Cigar.

Bayuk Cigars has been the outstanding merchandiser to date, but at its recent price of 45, selling 15 times estimated 1960 earnings of around $3.00, the stock appears on the high side. Yield on its indicated $2.00 dividend is 4.4%.

Consolidated Cigar's earnings may show an increase from an estimated $2.75 for 1959 to an estimated $3.10 for 1960 because of improving profit margins based on increased use of blended binder. Selling at an approximate nine times price-earnings ratio, and affording a 4.6% yield on its indicated dividend of $1.25, Consolidated Cigar appears to offer the best value of the group.

General Cigar, recently 24, is selling at 10.7 times its estimated earnings for 1960 of around $2.25. It would be our second choice in the industry, but yield on its indicated dividend of $0.80 is only 3.3%.

U. S. Tobacco (24), American Snuff (57), and **G. W. Helme (30),** are the nation's number one, two and three producers of snuff. To compensate for the lack of growth in their major line, each of the companies is making attempts to diversify. In addition to having gone into the cigarette business (leading brand Sano—ouput 0.60 billion), U. S. Tobacco last year acquired Circus Foods, a large manufacturer of canned nut products and candy bars. American Snuff has diversified into the insecticide business, and the G. W. Helme Co. into the baking business. Each of the snuff companies sells at from 10 to 11 times estimated 1960 earnings and yields in excess of 5%. END

Capital Formation In The Underdeveloped Areas

(Continued from page 613)

In the End, Social Justice

The great industrial complexes of North America, Europe and Russia were built by two factors: sweat and the constant formation of ever-larger amounts of capital. There is no other way. It may be unfortunate that it is so, but it is so nevertheless. It is unfortunate that disease, poverty and illiteracy exist, but they do exist, and neither wishful thinking nor economic panaceas nor mighty speeches will spirit them away. Only work. And profit. *This is not a prescription for social justice. It is a prescription for economic development.* It is curious, however, and instructive, that those countries which today have the highest degree of social justice are precisely those which in the past have followed this prescription. END

A First-Hand Study . . . Defense Expenditures and Who Will Get The Orders

(Continued from page 609)

In addition, Pratt & Whitney (a division of *United Aircraft will get the lion's share of some \$90 million put into the 1961 budget to buy engines, parts, and* training for an airborne alert of the B-52 bombers. Each B-52 uses eight P & W engines, at a cost of about \$350,000 each. Congress may augment that \$90 million considerably, but whether the Administration would use the extra money is moot.

Navy Aircraft

► The largest single segment of the Navy's \$1 billion aircraft procurement program is believed to be an estimated \$350 million for the **A3J attack plane** *(North American, General Electric)*, the last planned buy of this aircraft. Other combat planes in the Navy program are the **F8U-2N** *(Chance Vought, Pratt & Whitney)*; **F4H-1** *(McDonnell, Pratt & Whitney)*; **A4D** *(Douglas, Curtiss-Wright)*; and **A2F** *(Grumman)*. These programs are estimated at between \$30 million and \$100 million each.

Army Aircraft

The Army has allocated \$132.5 million for aircraft purchases in 1961, \$58 million for 83 fixed wing planes and \$74.4 million for helicopters. Sharing in these contracts will be *Beech Aircraft Corp., Bell Helicopter Corp., Grumman, deHavilland of Canada, and Vertol.* As the Air Force moves over into missiles and, eventually, to manned space craft, the Army will probably end up with the largest aircraft fleet of the military services.

► New military aircraft developments of the near future include such possibilities as the hoped-for *Air Force jet cargo plane;* a possible new Air Force *interceptor*, which could conceivably be a modification of the Navy's McDonnell F4H; a vertical or *short-takeoff-and-landing fighter;* a possible *advanced version* of the *B58 medium bomber,* and a *Missileer plane* to fire the Navy's still-experimental air-to-air missile. In addition, the Army has asked the industry to draw up designs for three new types of tactical aircraft for possible development by the mid-1960's.

► Finally, there are strong advocates in Congress of putting back in the *North American B-70 development program some of* the funds cut out of it last fall, both for defense applications and to speed the development of commercial planes that will fly at three times the speed of sound.

► As a nuclear stalemate develops between the U. S. and Russia, brush-fire emergencies of the Korean and Lebanon types appear more probable, strengthening the requirements for tactical and troop airlift aircraft. *Missiles and big bombers are too indiscriminating for the limited areas that would be involved.*

For offensive retaliatory strikes in general war, however, the big bomber has received a new lease on life through the development of long-range air-to-surface "stand off" missiles of the Hound Dog and, later, Sky Bolt, type, which provide in reality an effective marriage of the missile and the airplane.

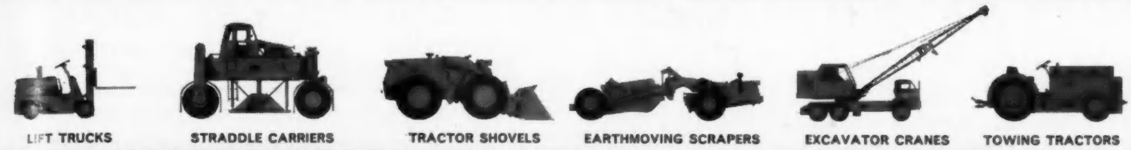
The aircraft industry will look to these potentials and to missile and space programs for its future government business, as well as to new fields such as electronics, atomic energy, etc. Some of the less dynamic or just plain less fortunate companies will find the going increasingly rough. Diversification and cost-cutting appear to be two of the prerequisites for weathering the big transition period.

Development on Space Systems

One of the most promising new fields is that of space systems, both military and civilian. With the transfer of big rocket engine development to the National Aeronautics and Space Administration, the Pentagon's space system budget for fiscal 1961 is relatively modest — \$318 million in planned obligations — but there are indications that it will start mushrooming before the year is out. The three major programs now in development, all by the Air Force, are as follows:

(1) **Midas,** a space satellite to give warning of enemy ballistic missile launchings. Lockheed is prime contractor, with approximately \$100 million allocated to the program for fiscal 1961. However, top Defense scientists are

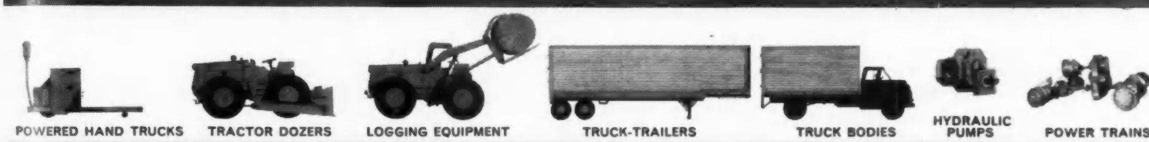
(Continued on page 644)



CLARK® EQUIPMENT COMPANY

Condensed Financial Report

DECEMBER 31 1959



The Company has mailed to all shareholders as of February 17, 1960, a preliminary report containing the financial statements for the year ended December 31, 1959. The financial report and operating particulars presented here, in condensed form, have been prepared by the Company from the more detailed financial statements certified by the company's public accountants, Price Waterhouse & Co. Copies of the preliminary report to shareholders are available upon request sent to the Secretary at the home office of the company at Buchanan, Michigan.

CLARK EQUIPMENT COMPANY

President

SALES, INCOME AND OTHER PARTICULARS FOR THE CALENDAR YEARS 1959 AND 1958

	1959	1958
NET SALES	$208,183,997	$142,618,140
Income before federal income tax	$ 24,001,804	$ 11,948,533
Provision for federal income tax	11,600,000	5,500,000
NET INCOME for the year	$ 12,401,804	$ 6,448,533
CASH DIVIDENDS:		
Common stock—$2.25 per share in 1959 and $2.00 per share in 1958	$ 5,348,692	$ 4,749,453
Preferred stock—redeemed June 15, 1959—annual rate of $5.00 per share	14,538	36,896
TOTAL DIVIDENDS	$ 5,363,230	$ 4,786,349
EARNINGS—per share of common stock outstanding (after dividends paid to preferred shareholders)	$5.21	$2.70

Balance Sheet—December 31, 1959

ASSETS

CURRENT ASSETS:		
Cash	$ 6,907,467	
Accounts receivable	23,873,455	
Inventories—at lower of cost or market	61,240,937	
Prepaid expenses	1,063,051	$ 93,084,910
INVESTMENTS		17,017,647
LAND, BUILDINGS AND EQUIPMENT	$55,860,386	
Less—Depreciation	24,597,133	31,263,253
		$141,365,810

LIABILITIES

CURRENT LIABILITIES		$ 44,074,959
LONG TERM NOTES PAYABLE		28,650,000
CAPITAL STOCK AND RETAINED EARNINGS:		
Common stock—par value $15 per share (2,382,851 shares)	$35,742,765	
Capital in excess of par value of shares	2,854,299	
Earnings retained and used in the business	30,167,435	
	$68,764,499	
Less—Cost of 5,888 shares held in treasury	123,648	68,640,851
		$141,365,810

studying the project right now to see if funding should not be stepped up substantially.

(2) **Samos,** a space satellite which will perform constant surveillance of enemy territory. Lockheed is also prime contractor for this system, under an estimated $150 million program which has top national priority along with ballistic missiles and the Polaris submarine.

(3) **Dyna Soar,** a manned "space glider" to make initial tests of military manned space capabilities. Boeing is prime contractor for the vehicle and Martin for the rocket booster, which will be a modified Titan missile. About $58 million is programmed for fiscal 1961, but a Pentagon review of this also is in the works, with a program increase possible. Top Air Force research officers would like to see a "crash" program to develop warning, surveillance, and communications satellites quickly as a safety measure during the period when Russia may have the edge in long-range missiles.

Electronics and Communications

► Next to shipbuilding, the largest single source of contracts after missiles and aircraft *is the category of electronics and communications,* with contracts for independent equipments amounting last year to 11 percent of all awards over $500,000. The military plans to obligate $1,244 for independent electronics and communications equipment (excluding research development) in the next fiscal year, and it is estimated that the total of all electronics contracts will be close to $3 billion. Electronics comprise 20-30 percent of aircraft and 30-35 percent of missile costs, the industry says.

A number of strategic and tactical communications—control system will be in early or advanced contracting stages during fiscal 1961, as will radar, sonar, loran, and other programs. One of the largest systems projects will be the **Strategic Air Command Control System,** for which *International Telephone & Telegraph* is prime contractor. Rental and sale of electronic data processing equipment to the military is a mushrooming field, in which the major companies are *Sperry Rand, International Business Machines, Burroughs, Radio Corp.* and *National Cash Register.*

Much of the expanding **anti-submarine warfare (ASW)** program involves electronic equipment. Active in this area are *General Dynamics, General Electric, Raytheon, Martin,* and many others. About $25 million is earmarked for procurement of major ASW electronics equipment, plus $180 million for further research and development in this field. For all Naval vessels, electronics account for about 12 percent of the cost, in a shipbuilding program of $1.4 billion.

Last year, 75 percent of all research, development and test awards of $10,000 or more to private industry were for work connected with missiles, aircraft, nuclear ships, and associated electronics programs, out of a total program amounting to $5.2 billion. This was an increase of $1.2 billion over 1958 in research and development work. Electronics firms large and small are liberally sprinkled through the roster of the 500 firms who received these contracts.

Miscellaneous

Another large procurement source is the field of ordnance and vehicles, for which $1,023 million in obligations is planned, a sizeable increase over the past two years (see Table II). The new program provides for about 18,000 tactical vehicles, 6,000 more than this year. *General Motors, Chrysler Corp.,* and *Ford Motor Co.* are the most likely beneficiaries, along with specialty producers such as *Food & Machinery, International Harvester,* and the tire manufacturers. *Chrysler* may also win a large new contract for the M-60 medium tank that the firm has been producing for the Army. END

Technical Rally — How Far Will It Go?

(Continued from page 601)

mand for housing is governed not so much by the "price" of homes as by the monthly payments required to finance interest payments, amortization, taxes and insurance. These costs definitely are not declining.

The Rest of the List

Other industries making up the economic picture include oils, aircrafts, airlines, coppers, etc., most of which have been drifting downward or have been moving sidewise for some time and offer little promise of spearheading a resurgence in public appeal. Under the circumstances, maintenance of a cautious longer term outlook still is warranted.

Technical Aspects

Now to consider technical aspects of the situation brought into focus by the "selling climax" that seems to have checked the first stage of a comprehensive adjustment. From the January 5 all-time peak in the Industrial Average a retreat of slightly more than 12 per cent had taken place at Wednesday's intraday low. Technicians would expect a rebound of from one-third to one-half of the 85-point drop in the major average. Experience suggests also that more time may be required to retrace a portion of the ground lost than was consumed in the decline. No one can forecast with certainty the extent of a rally from an oversold position. It could endure for several weeks and carry for quite a distance under a favorable psychological environment, or it could burn itself out quickly in an outburst of speculative enthusiasm.

Extreme thinness of the market at extraordinarily high levels provides a background for comparatively wide gyrations in popular issues. Rapid and erratic fluctuations tend to discourage careful accumulation by institutional investors. In fact, such behavior often induces selling. As indicated previously, caution is a prerequisite for conservative investors under present conditions.

—Friday, February 19.

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DURING the year-end rally, The Forecast advised subscribers to defer new purchases in expectation of a market adjustment—which cut 63 points off the Industrial Average in January.

Our analysts are now searching out the exceptional opportunities, looking to 1960—when we expect to continue our outstanding profit record.

The December, 1959, audit showed a total of 596 points profit available on the 21 stocks in our open position, in addition to the 138 points profit taken earlier in 1959. Our skill in selecting and holding stocks that were split last year was a feature of our record:

27% Gain on DENVER & RIO GRANDE WESTERN — Recommended at 39—split 3-for-1, so for each share bought our subscribers now hold 3 new shares selling at 16½.

47% Appreciation in SOUTHERN PACIFIC—Selected at 45—split 3-for-1—the new shares are up to 22⅛.

109% Appreciation in REYNOLDS TOBACCO — Recommended at 55½—split 2-for-1—so clients now have 2 new shares selling at 58⅛ for each share purchased.

272% Enhancement in INTERNATIONAL TEL. & TEL.—Originally recommended at 18½—split 2-for-1—so subscribers own 2 new shares at 34½ for each share acquired.

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Deflation or Inflation

(*Continued from page 605*)

supply of credit. To be sure, the government could thwart this natural consequence either by refusing to surrender the gold upon demand (an embargo) or reducing the reserve against the currency still further. Either step would be dangerous and represent a further blow against international confidence in the dollar.

Why Deflation is Probable

Admittedly, the arguments on one side only—supporting deflation—have been cited in the foregoing article. Contrary factors encouraging inflation are well known to our readers. Most of these will remain in force. Some of them have been weakened. But more important, new conditions have appeared for the first time in recent years which support the expectation of an orderly deflation.

The vicious wage-price spiral, for example, is difficult to break as long as the conditions which nourish it—a heavy demand for goods, a relative shortage of labor, an absence of foreign competition—persist. But these conditions, as has been shown, are likely to be reversed or at least significantly modified. This makes an interruption of the recent inflationary trend almost a certainty, and its early replacement by a process of orderly deflation a strong probability.

Of course, irresponsible politicians, seeking some panaceas for escaping the natural consequences of our own acts, could still adopt a radical policy of currency debasement that would lead to inevitable disaster. A gold embargo would have a damaging effect. Developments already in sight however point to deflation as the most likely economic trend, and if it persists in an orderly fashion, it will mean a measure of austerity, but healthy for our society as a whole. END

For Profit and Income

(*Continued from page 631*)

Northern States Power, Ohio Edison (with a dividend boost possible this year), and West Penn Electric.

U.S. Natural Gas Stocks

Domestic natural gas pipe companies are subject to uncertainties centering in unclarified rate-making policies of the Federal Power Commission. Market prospects are better for companies which, whether partly integrated or not, are primarily distributors of gas, subject to less complicated State regulation of rates. As with electric utilities, these stock now also have benefit of easier money rates. Some of the better ones offering satisfactory dividend yields are Brooklyn Union Gas, Equitable Gas, Oklahoma Natural Gas, and Pacific Lighting. END

★★★ Book Reviews ★★★

Alaska, U.S.A.

By HERB and MIRIAM HILSCHER

Alaska, U.S.A. is the sourcebook on every aspect of Alaskan life, from how to get there, through job, school, church and housing conditions. It tells about social life, community organizations, the openings for both skilled and unskilled labor. It describes the geography of the country and the areas which specialize in mining, farming, livestock raising, etc. It contains detailed information about homesteading in the Northland.

This book answers the basic questions that thousands and thousands of citizens in the Lower 48 are asking about the new state. It tell military personnel what to expect on a tour of duty in Alaska, and it gives the tourist a new perspective on the Northland.

It is not, however, an easy guide to quick success in Alaska. It emphasizes that the new state needs people with responsibility and a will to work. The chapters on "How to Retire at Forty-three" and "Alaska's Number One Young Businessman" are success stories about people who have labored long and hard to get where they are. Herb and Miriam Hilscher do not hesitate to describe primitive conditions, loneliness and climate problems where they exist.

Long before Alaska became a state, people like the Hilschers settled in the Northland and became tied to the land by the bonds of love and pride. Their dedication and responsibility have made Alaska what it is today—a place to find a good and rewarding life rather than a quick bonanza.

Mr. Hilscher was one of the fifty-five Alaskans chose to write the Constitution for the new state. He is in the public relations business in Anchorage and is prominently identified with the budding petroleum industry in Alaska.

With their thorough knowledge of the 49th state, coupled with their informal and entertaining style, Herb and Miriam Hilscher reflect the friendliness, enthusiasm and pride which fill the air in Alaska today.

Little, Brown $4.50

A Public Development Program For Thailand

Report of a mission organized by the International Bank for Reconstruction and Development (The World Bank) at the request of the Government of Thialand.

This book makes a thorough analysis of Thailand's economy and appraises its potential for future growth. It also recommends action aimed at both the most efficient use of present resources and the greatest possible economic development over the next several years.

As with previous general economic surveys of the Bank—fourteen other member countries of the Bank have made use of its assistance in this way—the purpose of the report is to help the home government plan its contribution to the economic and social development of the country and to advise on the forms of organization which are likely to be most effective in fostering those developments. The mission has made an assessment of the public development funds likely to become available over the next few years and has suggested allocation of these funds in accordance with its view of development priorities. Suggestions are also made on certain policies which the Mission believes the Thailand Government should follow in order to give maximum assistance to the development process.

This report will serve for many years as a basic reference work on the facts and problems of the economy of Thailand. The survey is supported by numerous charts, tables, and maps and is an invaluable source of information for public officials, private investors, economic historians, and students.

The John Hopkins Press $6.00

Helping You to ATTAIN and RETAIN

FINANCIAL INDEPENDENCE

(Important — To Investors With $50,000 or More!)

Most investors are aiming for financial independence... whether they hope to arrive at their goal in five, ten or twenty years.

We concur in their confidence that wise and timely investment of their capital can make this dream a reality . . . for despite temporary readjustments our nation is forging ahead in a new era of amazing scientific achievement, industrial advancement and investment opportunity.

In 1960 and the coming years, we will see marvelous and practical progress in the conquest of space, in attainment of plant automation, in harnessing of atomic energy . . . with a host of new products, materials and techniques emerging.

These new forces will have profound investment significance for they will invigorate many companies — but often at the expense of less able competitors. TO YOU, as an investor, this adds up to an increased need for continuing investment research and capable professional counsel.

Expert Analysis of Your Present Holdings:

Our first step in serving you is to make a detailed report—analyzing your entire list—taking into consideration income, safety, diversification, enhancement probabilities—today's factors and tomorrow's outlook.

Issues to Hold and Advantageous Revisions:

Definite counsel is given on each issue in your account... advising retention of those most attractive for income and growth... preventing sale of those now thoroughly liquidated and likely to improve. We will point out unfavorable or overpriced securities and make substitute recommendations in companies with unusually promising 1960 prospects and longer term profit potentials.

Close Continuous Supervision of All Holdings:

Thereafter—your securities are held under the constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. It is never necessary for you to consult us.

When changes are recommended, precise instructions as to why to sell or buy are given, together with counsel as to the prices at which to act. Alert counsel by first class mail or air mail and by telegraph relieves you of any doubt concerning your investments.

Complete Consultation Privileges:

You can consult us on any special investment problem you may face. Our contacts and original research sometimes offer you aid not obtainable elsewhere—to help you to save—to make money.

Help in Minimizing Your Taxes:

We keep in mind the tax consequences of each transaction and help you to minimize your tax liability. (Our annual fee is allowed as a deduction from your income for Federal Income Tax purposes, considerably reducing the net cost to you.)

Annual Personal Progress Reports:

Throughout the year we keep a complete record of each transaction as you follow our advice. At the end of your annual enrollment you receive our audit of the progress of your account showing just how it has grown in value and the amounts of income it has produced for you.

Full information on Investment Management Service is yours for the asking. Our rates are based on the present value of securities and cash to be supervised—so if you will let us know the present worth of your account—or send us a list of your holdings for evaluation—we shall be glad to quote an exact annual fee . . . and to answer any questions as to how our counsel can benefit you.

INVESTMENT MANAGEMENT SERVICE

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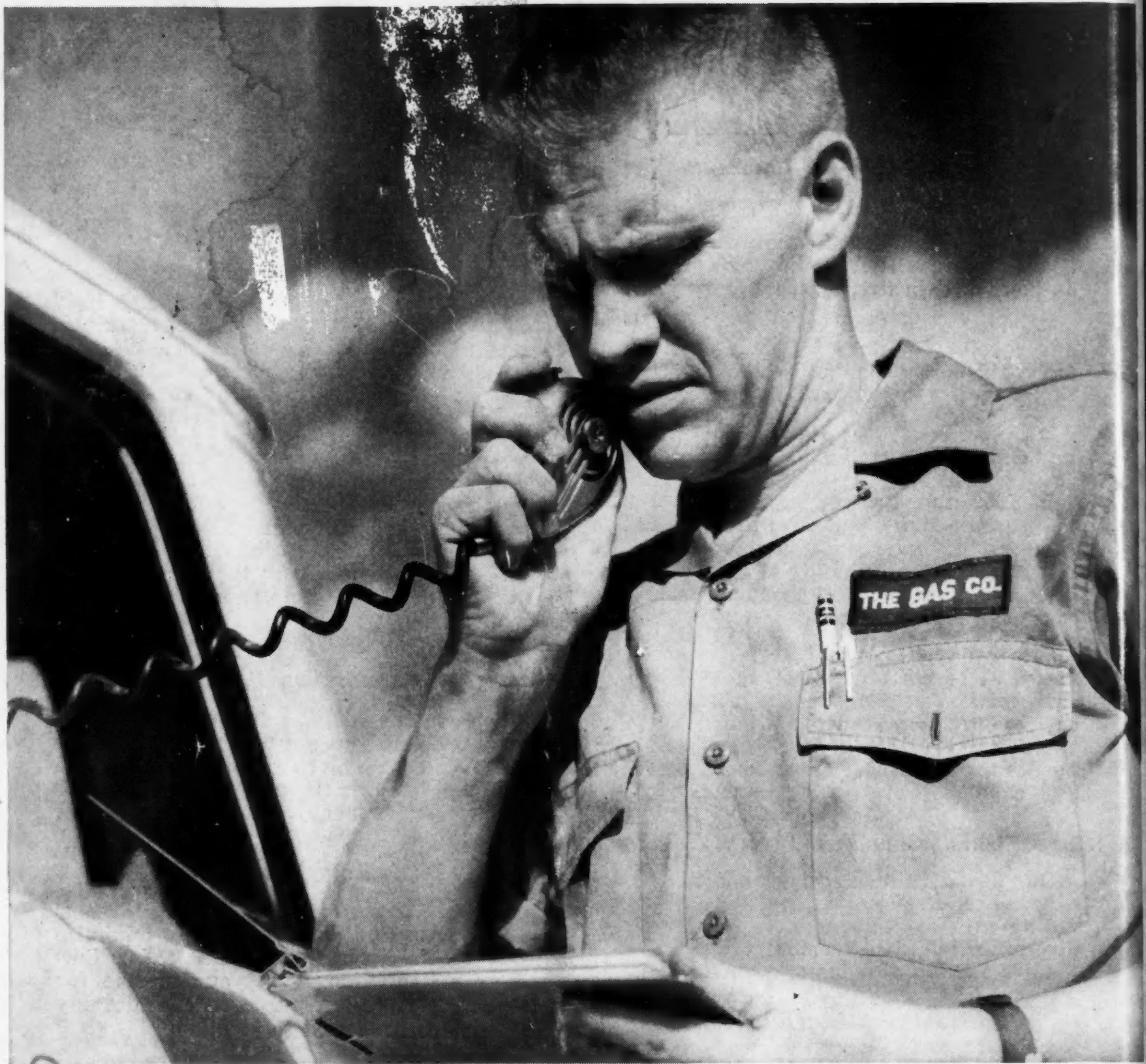

More people than ever share in the growth of the Columbia Gas System

In 1959 over 3,200,000 homes and businesses used an all-time high of 736 billion cubic feet of natural gas delivered, directly and indirectly, through the Columbia Gas System – 36 billion more than in 1958.

Despite the prolonged steel strike the System delivered more gas than ever to the growing industrial complex it serves in 7 states–New York, Ohio, Pennsylvania, Kentucky, West Virginia, Virginia, and Maryland.

The number of owners of the System grew, too. Thirty-two thousand more of them – 182,545 in all – were listed as stockholders of The Columbia Gas System, Inc. at year's end.

And the men and women who work for the Columbia Gas System, including those who operate the System's pipeline from the Gulf Coast to the Kentucky-West Virginia border, shared $79,000,000 in wages and benefits during the year.

Here is evidence of the growing demand for a vital public service–the production, transportation and delivery of natural gas – on which so many people depend for their daily comfort, convenience and economic betterment. *For the complete story on the growth of the Columbia Gas System–and its continuing investment in better service for more people – write for your copy of our 1959 Annual Report.*

THE COLUMBIA Gas SYSTEM, INC.

COLUMBIA GAS SYSTEM

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